

ALBERTA
COMMISSION
ON BANKING
AND CREDIT
1922

VOL. 3
REPORT OF COMMISSIONER

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REPORT OF THE COMMISSIONER
ON
BANKING AND CREDIT WITH RESPECT
TO
THE INDUSTRY OF AGRICULTURE
IN
THE PROVINCE OF ALBERTA.
1922.

To the Honourable J. E. Brownlee,
Attorney General,
Province of Alberta.

Sir:

I have the honour to submit for your
consideration the report of the Commissioner
appointed to investigate Banking and Credit
facilities with respect to the industry of
Agriculture in the Province of Alberta.

Respectfully submitted,

D. A. McGibbon,

Commissioner.

November 4, 1922.

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I - INTRODUCTORY.

The general scope of the proposed enquiry was set forth as follows:

1. To examine into the operations of The Banking Act as it bears upon the farming industry of Alberta with a view to revising any existing difficulties or grievances which might be remedied at the decennial revision of The Banking Act next year;
2. To explore the actual difficulties which farmers suffer on account of lack of credit facilities;
3. To examine the conditions under which long term loans are made with a view to improving the facilities for the extension of this form of credit;
4. Other matters which may appear relevant to the investigation.

In view of the necessity of completing the investigation within a fairly short period of time it was decided that sittings should be held during the months of June, July and August. It was seen that if sittings were continued until a later date they would conflict with harvesting operations; if interrupted and resumed after harvest there would not be sufficient time to prepare a report before the next session of parliament. This limitation in time in turn limited the number of points where sittings could be held. In all, sixteen sittings were conducted at the following places: Vermilion, Camrose, Hardisty, Coronation, Youngstown, Medicine Hat, Foremost, Lethbridge, Macleod, Calgary, Red Deer, Stettler, Sangudo and Onoway, Grande Prairie, Peace River Crossing and Edmonton. These points were selected with the intention of covering the province as completely as possible. They were not selected with a view to striking at any particular bank. At practically every sitting representatives were present from intervening points so that, on the whole, the evidence may be considered as a fair index of credit conditions throughout the province.

At each sitting the chief witnesses were farmers of that particular district. They gave evidence before the commission as to the general difficulties they encountered in connection with obtaining and using credit. In a number of instances grievances of a specific nature touching the practices of a local branch manager were heard, but generally farmers appeared in a representative capacity, either as the duly appointed representatives of a local unit of the United Farmers of Alberta or of a municipal organization, or because their general position in the community, made them the natural choice. Other farmers who were present at the sittings did not come forward once the local grievances had been stated. By actual enquiry it developed that most of the farmers who appeared had been in the province for a considerable period of time and farmed considerable land. I am convinced that the group of farmers who gave evidence fairly represented the general views of the agriculturalists of the province in respect to banking practice and credit conditions in Alberta.

With the exception of the cities of Calgary and Edmonton, at each point a number of local merchants were asked to give evidence. Where available, a general merchant, a hardware merchant and a general grocer were called. As far as possible these were the oldest or most prominent men in the community in these lines. They gave valuable evidence both by way of tempering or confirming the evidence of other witnesses and by filling out and making more complete the picture of conditions as they exist in each locality visited.

A third group of witnesses called were managers of the branches of the chartered banks. These were called at every point visited except at Vermilion where the first sitting was held. Where the number of branches was larger than one or two, the oldest local manager was chosen unless there was some particular reason for calling the others. At Camrose, Macleod and Stettler, the three local managers were heard. There was also present at all sittings a representative of the Canadian Bankers' Association, and usually one or two supervisors or inspectors from the Western or Alberta superintending offices of the chartered banks, varying with the branches of the particular banks located at the point where the sitting was being held. At Calgary the provincial secretary of the United Farmers gave evidence as to the general complaints that came to the central office. At both Calgary and Edmonton a number of superintendents of western branches of the banks were examined.

The sittings were advertised in the press, were public, and the evidence was given under oath. Undoubtedly one feature of the enquiry incurred a certain amount of criticism. This feature was asking farmers to present their greivances publicly in the presence of bank officials. I desire that there should be no misunderstanding as to the reasons that determined the form the enquiry should take. It is undoubtedly true that more evidence would have been offered by farmers with regard to their relationships to the banks if the sittings had been held in private and no bank officials allowed to be present. In certain instances the farmers feared that as a result of giving evidence they would later be discriminated against by the banks -- "punished" in fact. This feeling I found prevalent throughout the province. But on the other hand, no serious report could be based on evidence gathered under a partisan procedure. Any recommendations would be discounted by being grounded on a one-sided study of the problem; for the same reasons any conclusions reached could be easily impugned. Moreover, it is true that in controverted public questions the great danger is that of listening to only one side of the case.

By examining both bankers and farmers openly and in the presence of each other I have been able to satisfy myself as to the extent and reality of certain practices which are a matter of complaint. I do not think that in this respect my conclusions can be successfully challenged on the ground that they were based on a one-sided investigation of the facts or that the facts themselves were not fully disclosed.

From time to time during the course of the investigation, evidence touching long-term credit facilities was presented. At Edmonton a representative of the Mortgage Loans Association of the Province of Alberta was called and examined. In the main, however, this report deals with problems of short-term credit and only slightly with the mortgage field.

II - COMPLAINTS.

Complaints against the chartered banks may be divided into two groups, specific and general. Specific complaints refer to specific transactions or transactions limited to a certain place or to the branches of a particular bank.

(a) It is obvious that with three hundred and sixty-five branches of the chartered banks in the province, stray cases of misuse of power and position will develop. This would happen no matter what system of banking might be employed and no matter how much vigilance might be employed by the supervising authorities. I have disregarded, in preparing this report, a number of instances brought to my notice which I deem to come under this head. I consider, however, that in four instances the specific complaints were serious enough to require separate consideration. These instances concern the conduct of the branches of the

- (1) Union Bank of Canada at Foremost, Macleod and Pincher Creek;
- (2) Bank of Toronto at Coronation and Youngstown;
- (3) Bank of Commerce at a number of points; and
- (4) Banks with branches in the towns of Peace River Crossing and Grande Prairie.

(b) General complaints appear where certain policies, commonly pursued by all the chartered banks, so far as I have discovered, were made the subject of complaint; either by representatives of the United Farmers of Alberta, or by other farmers. Here, the individual had not a personal specific grievance against his banker or the local branch but objected to the general system under which the farmer obtains credit. Certain practices were singled out as unfair or not suited to the industry of agriculture under Alberta conditions. Under this head I would classify most of the complaints which were brought to my notice.

III - SPECIFIC COMPLAINTS

I. The Union Bank of Canada - Foremost.

Foremost is a small village south-west of Medicine Hat. It was selected as a point at which to hold a sitting because it was well within the southern dry area. The Union Bank is the only bank with a branch established there. The territory this branch serves is large: on the south, right to the American boundary, between forty and forty-five miles distant; on the north, sixteen miles to eighteen miles; east about nine or ten miles; and west about twenty miles; in all, roughly, about eighteen hundred square miles of territory, on the whole rather sparsely settled. In 1917 crop yields began to lighten, became worse in succeeding years and from that date until the present (1922) the best crop has not been over seventy-five per cent. Adventuring into increased production as a result of a general advocacy of that course the farmers presently encountered drought conditions. The recurrence of dry years made it necessary for the district to receive relief (Foremost, p. 17). It is quite clear that this is a part of the province where the settlers have faced great difficulties during the last five years. It is during these five years, I consider, that the policy of the Union Bank at this point may properly be called in question. The policy of the bank may be exhibited by --

- (1) the rates of interest charged;
- (2) its method of renewing and compounding.

Interest Rates: It is estimated that the accrued interest burden has become such that the "present crop won't any more than pay interest on what the people are owing." It was maintained by complainants that while nominally the rate of interest varied, "the ordinary man" was "paying as high as ten per cent....." (Foremost, p. 8; p. 12). The evidence of the Union Bank branch manager is that the minimum charge for a small loan for a month is a dollar, (Foremost, p. 31), which might work out to over ten per cent., but that "there are at least seventy-five per cent. of the total amounts out at eight per cent., and our average rate covering all small loans upon which we charge a minimum it would amount to nine per cent.", (Foremost, p. 37). Apart from minimum loans it is admitted that loans were being placed at ten per cent., (Foremost, p. 33).

Renewing and Compounding: The practice of discounting farmers' notes for short periods, renewing the note and compounding the interest when it was known the debt could not possibly be paid off unless and except there was a crop, and then only at harvest time, was repeatedly brought to my notice at this point. A witness, not hostile to the bank, who had lived thirteen years in the community and farmed six hundred acres, summed up the situation as follows: "Knowing conditions here as I do through the municipality, I would say that the present crop, I think I am safe in saying that the present crop won't any more than pay interest for what the people are owing", (Foremost, p. 18). The evidence of the branch manager of the Union Bank, in part, is as follows:

- "Q. When you make a loan initially - what is the usual length of time?
- A. It usually depends upon the time of the year. For instance, making loans just now (July '17) I generally ask the farmer what time he wishes it to mature, providing he is a good risk. I treat his wishes.....
- Q. As a matter of fact in discussing the loans that have gone out - in your experience what is the usual length of time at this time of the year?
- A. 1st October - 1st November.

- Q. Three months?
A. 1st November.
Q. Some four months?
A. Some 1st of December.
Q. The bulk of them three months?
A. Three months - yes.
Q. What has been the average length of time that a note has actually run - could you say anything about that?
A. At the present time I should judge the average of our notes that have run in our office, probably would be four years.
Q. Notes that have been running for four years would be renewed every three months?
A. Not necessarily. In some cases the renewal might be from the first of January to the first of February.
Q. And the interest at the renewal period would be added on each time?
A. Yes.
Q. Would it be fair to say, that some being longer and some being shorter that the interest was compounded every four months on the average?
A. Yes.
Q. And have been running for about four years?
A. Yes.
Q. When these renewals are made do you take a mortgage?
A. It just depends upon the borrower and his financial condition and his business ability and the way he is farming.
Q. Would you state a percentage of these four-year loans upon which you would take a mortgage?
A. I might say that if I haven't taken it, it has been really because I couldn't get it." (Foremost p. 31).

Macleod and Pincher Creek.

Macleod is in one of the oldest districts in the province and there are branches of the Bank of Montreal, the Bank of Commerce and the Union Bank established there. The soil in part of the adjacent territory has drifted and like other points in the south, there has been distress from recurring dry seasons. The chief complaints here were against the local branch of the Union Bank for requiring renewals at very short intervals with a compounding of interest. In this respect the policy of the Union Bank seemed to be similar to that at Foremost. I quote from the evidence of the manager of the Macleod Branch:

- Q. A large percentage of your business is with the farmers?
A. Exactly.
Q. Now what is the usual length of loan period, three months?
A. Usually three months according to the requirements of the situation existing.
Q. Have you loans with farmers you are renewing at one month?
A. I don't think so, no special loans. There may be an occasional loan for a month.
Q. Have you loans with farmers you are renewing from one month to another?
A. Not particularly.
Q. You mean you have not or you have?
A. Not that I know of offhand.
Q. You have at three months?
A. Oh, yes, these will be renewed according to what we think will meet our requirements and their requirements.
Q. If they said their requirements was six months would you renew for that length of time?
A. No, not at the present time. I would expect to do it from today until they get their crop off.
Q. Would you in April?
A. Yes, but you will have to understand we are working under abnormal conditions.

- Q. You would not at the present time?
- A. At the present time we are renewing on a ninety day basis.
- Q. None are at thirty or sixty days?
- A. None at thirty.
- Q. You have some at sixty?
- A. Yes, sir.
- Q. And these men are farmers?
- A. Yes, Sir.
- Q. They are relying upon their crop to settle?
- A. Yes, of course you understand we have a lot of paper taken on demand and left them running for a number of years.
- Q. So a man who borrowed, we will say, or had a loan from you in April, who was a farmer, would renew in June?
- A. I took a number in the spring to mature about the first of August simply to see how the crop was going to turn out. If the crop did not turn out we would renew them until the crop was taken off.
- Q. And if they didn't turn out good?
- A. We would have to take them up with the head office to see what policy we would adopt for collection.
- Q. And if the crop didn't turn out good?
- A. Well, there would be some general policy adopted.
- Q. I gather you have many farmers' loans at sixty days, you have a large number on demand and you have a large number coming due in August?
- A. August, September and October.
- Q. You said August a moment ago, and if the crop isn't coming in you may refuse renewals?
- A. No, I don't expect to refuse any renewals.
- Q. You said if the crop is a failure.....
- A. I will have to take the matter up. It simply means I will have to take them up. My idea is to take them up and see what can be done. I am going to take them up on a yearly basis, they have got to wait until next summer for a crop.
- Q. You propose in August to take these up on a yearly basis?
- A. Yes, sir.
- Q. Was that your policy a year ago?
- A. Yes, sir.
- Q. In August you took.....
- A. I took up my accounts one after another.
- Q. On a yearly basis?
- A. Yes, sir.
- Q. So all the farmers who had failures last year.....
- A. Yes.
- Q. On a yearly basis, do you mean last August you arranged with a number of farmers that signed notes for a year?
- A. No, I expected to carry them for a year, renewed for a year on a three months basis.
- Q. At eight per cent.?
- A. Yes, sir.
- Q. Compounded?
- A. No.
- Q. Every three months?
- A. No. Most of these fellows try to pay their interest, where they cannot we add it on to the note.
- Q. That is compounding?
- A. Yes, sir." (Macleod, pp 51-54).

In addition there was a complaint from Charles Harod concerning transactions with the Union Bank at Pincher Creek. Mr. Harod's evidence was as follows:

- "Q How long have you lived here?
- A. Ever since 1907.
- Q. You have farmed in the Macleod district?
- A. Well, it is two miles west of Brocket.

- Q. How much land do you farm?
- A. At the present time about a section and a half, of course it is a good deal cattle land, mixed farming.
- Q. Is it a complaint or have you some information to offer?
- A. I think so.
- Q. You just go ahead.
- A. I have been dried out five years in succession. I have had a leg broke twice and fractured one; a little over two years ago I could have drawn all the money I wanted to off the bank to buy feed during the coming winter, but I would not have it. I said I had bought feed for cattle for two years and I would not do it a third. I went and sold them. I went to the bank and paid every cent what I owed them. I was asked if I wanted any more money and I said: 'Not at present but I will want some'.
- Q. Which bank is this?
- A. The Union Bank. I would not borrow a cent that fall. However, I wanted a bit in the spring to try and get things pre-arranged, I tried early in the year to get my arrangements through with the manager. I was in the town when my time was worth practically nothing I wanted it fixed up. I wanted to know where I got off at. I was told I could have what money I wanted. When the time came that I wanted money, I was told by the manager he didn't know whether I could have it or not.
- Q. How much did you ask for?
- A. About a couple of thousand.
- Q. Your land was clear?
- A. I had got three quarters clear, they had the titles.
- Q. How did they have the titles if you didn't owe them anything?
- A. I put them when I had money off them before.
- Q. You had left them with them?
- A. Yes, sir. I was told they didn't know whether I could have it or not. When I should be busy on the land I was zig-zagging anywhere, I didn't know where I was going to get off at. They let me have it and as luck would have it I was dried up again. I could not brass up with them the following fall. I was hard on the rocks. I told the manager my position. I was promised assistance in a few weeks. When the time came he would not let me have it. The following spring he gave me to understand he would let me carry on but he must have a chattel mortgage. He got what he wanted. When I wanted some money to put the crop in they would not let me have a cent.
- Q. You were given to understand you would have supplies to put in your crop?
- A. Providing I gave a chattel mortgage.
- Q. You gave a mortgage and were then refused?
- A. Yes, sir.
- Q. That was in the spring of?
- A. That would be 1921. Then I was dried out again, I could not brass up with them last fall. Twice I broke my leg, weeks there I laid in bed with a leg in a box and understand they was agitating me signing bills again.
- Q. You feel they were very harsh?
- A. Harsh, harsh, in my opinion The Banking Act is a piece of corruption on civilization.
- Q. Do you wish to add something?
- A. Now then I talked to the manager the other day and with all the agitation they put me through he says: 'We are not going to close on you', and I said: 'I have always paid you and will pay you'. and he says: 'I know it'. What on earth is the use of putting a fellow through that irritation when they know they will be paid. I could not get a cent in 1921 to put the crop in.

- Q. How did you put your crop in?
- A. I got a bit of private money from a friend.
- Q. You got a private loan?
- A. Yes, if I hadn't had a private friend I would have had my land laying idle. I have squared up with the bank and am doing so and when I have squared up, I will let my land lay idle. That is the system I have adopted. I am going to grow everything I can eat on my own table and I advise every farmer to do the same.
- Q. I might observe that throughout the whole drought district I have had evidence from bankers, merchants, wholesalers, etc., that where that has been done the farmer has not suffered nearly as much as where it hasn't been done.
- A. But when I put the property in their hands, they have titles and chattel mortgages besides, three quarters sections clear, my horses and machinery, why is it they keep irritating me about carrying on. Every three months they have got to take a farmer into town, and perhaps take up half a day to a day, and who knows but the farmer himself what that costs him in certain seasons. I consider the loan ought to carry over twelve months with the privilege of squaring up any time and any reasonable man will come in and square up when he has the money.
- Q. Anything else?
- A. Yes, I lost fifty dollars the other day through the fault of the banker. I had been tight on the rocks and I had a few dollars in the bank to meet expenses. I have tried to do a bit of irrigating and I was afraid of the bank putting their hands on it for interest and I had to draw it out, a thing I don't believe in, I had to do it and as luck would have it I lost it.
- Q. That is hard luck.
- A. If the bank had been reliable and I knew they would not have put their hands on that few dollars I had for working expenses I should not have lost it.
- Q. You mean you could not obtain a guarantee from the banker you could hold that money in the bank for current expenses?
- A. My experience is that if they would put their hands on that and take it as interest on the loan they would do it without asking my permission.
- Q. You had it in the bank and they let you take it out?
- A. Yes, sir.
- Q. If they let you take it out.....
- A. Suppose I had left it a few days later it would have disappeared.
- Q. You have made a rather serious charge. Did you ask the banker if that money could remain on your credit (current) account?
- A. I did not, for I have given over asking any privileges.
- Q. It wasn't a privilege it was straight business.
- A. Any reasonable man would never think a banker would be given - if a farmer has a few dollars in the bank to his credit to meet current expenses - they would never think the banker would put his hands on it and claim it for interest before he has a chance to clear himself.
- Q. Did that happen to you?
- A. I tell you what they did. I have always been a man of principle and paid my debts and kept a clean slate. The expenses of that chattel mortgage were eighteen dollars and they took it out of the paltry few dollars I had to my credit without asking me.
- Q. Or telling you?
- A. Yes. If they did that then they was liable to do it for the interest. I consider the bank is to a great extent working on the credit of the country and me, Jack, Jim and Harry ought to carry it and have the interest.
(MacLeod p. 37 - 42).

These complaints were brought to the attention of the superintendent of Alberta branches of the Union Bank at Calgary at the sitting there. The latter disclaimed any knowledge of specific cases.

"2. Have you anything to say?

A. No I am not personally acquainted with Mr. Harod.

However, I can get you evidence dealing with that.

All I have to say is that any bank that is charging ten per cent., compounding it every four months, rates of nine or ten per cent.; that they should be prepared to give a very good reason for doing so and I will be glad to hear you again on that question if you wish.

Q. At Edmonton?

A. At Edmonton. (Calgary, p. 81).

The Union Bank of Canada was not represented by a higher official at the Edmonton sitting of the commission, the evidence promised with regard to Mr. Harod's complaint was not forthcoming, but the following interchange of letters between Mr. H. A. Robson, general counsel for the bank and a member of the Board of Directors, and myself took place;

(COPY)

UNION BANK OF CANADA

Office of the Chief Counsel.

Winnipeg, Man., July 29, 1922.

D. A. McGibbon, Esq.,
University of Alberta,
Edmonton, Alta.

Dear Sir:-

My attention has been called to an article in the issue of the Calgary Albertan of the 25th of July, the head line of which gives glaring publicity to an alleged ten per cent. transaction said to have arisen at the branch of this bank at Foremost. I am told that similar instances in other banks were not so published, but that, of course, was something that lay only with the newspaper.

I have no doubt that you do not desire that your commission shall be made use of for mere sensational newspaper items.

It is unfortunate that the particulars and circumstances of the alleged transaction were not given to the bank before the meeting so that the bank's officers could deal with the case on the merits. They would have presented an entirely different picture to that suggested by the bald charge and meagre answer - in fact I respectfully submit that the charge should not have been made without notice or details, and that there should have been no attempt to answer it until it could have been dealt with completely. It is quite possible that all opportunity for giving you the facts has gone by. It is quite clear that the newspaper item cannot be recalled, and that the damage done by it is irremediable, no matter how many explanations or corrections might be made.

I personally told Mr. Chandler that there could be no doubt whatever that if any individual complaints were made he would be sure to receive notice of them and be able to deal with them specifically. The general manager of this bank had previously given instructions that every possible assistance was to be given to you in the work that has been imposed upon you. That is still the spirit and intention of this bank.

Hearings of the nature of those necessarily involved in your commission are bound to be injurious to the financial

concerns whose business is under inquiry. Publicity always runs to isolated cases which are picked out because of some apparently extreme feature, whereas, in fact, the great mass of irreproachable business and real service to the country lies untouched and nothing is heard of it. Therefore, I respectfully submit that it is necessary to watch that the extremist - with his odd case here and there - does not get too much of an opportunity for doing harm,

Aside from the matter of service rendered by the banks the public will never know, and it will be almost impossible even to inform you, of the great losses that the banks have made in their assistance to the farming and ranching population. Loans have been made and lost in numerous cases where refusal of them would have been loudly proclaimed as a denial of service to the community. This, I have reason to believe, is the general experience of all the banks that have been doing business at all widely in the western provinces. In all this the duty towards shareholders and depositors and the expense of operation are lost sight of.

There is also ignored the fact that if it were not for the banks the farmers and business population of Alberta would be practically back in the old days of twenty-four per cent. for short terms, coupled with the exactions of the greedy private lender. I can from personal observation testify to the change from the twenty-four per cent. rate to the present rate immediately upon the advent of the chartered banks into the west. I will not lose the opportunity to say that this bank was the pioneer in that improvement and that it has consistently maintained its policy of reasonable assistance to the producing population as far as consistent with sound banking and the duty it owes to others than borrowers.

The general manager has received word of the general inquiries you have made of banks and I am sure will give the matter the best consideration possible, solely with a view of assisting you. I am writing this letter merely in advance and because of the publicity above referred to.

This bank has been very pleased to observe the reasonable attitude adopted by the Government of Alberta towards financial institutions. Such an attitude, of course, creates greater confidence and it can be depended upon that the bank will, in Alberta, serve the people with all reasonableness considering the various factors that have to be borne in mind in financial administration.

While the subject is one legally of federal concern, this bank is in accord with the inquiry and its officers, if you will allow me to say so, have every confidence that your findings will be educating and beneficial in that they will fearlessly present all sides of the case.

Yours truly,

(Signed) H. A. Robson.

(COPY)

Edmonton, Alta., August 2, 1922.

H. A. Robson, Esq.,
Chief Counsel,
Union Bank,
Winnipeg, Man.

Dear Sir:-

I have your letter of July 29th with regard to ten per cent. transactions of the Union Bank at Foremost.

If you have seen a transcript of the evidence taken at Calgary you will observe that I told Mr. Chandler that if the bank wished to submit further evidence in regard to charging ten per cent. interest and compounding it in the face of crop failures I will be pleased to take it at Edmonton at the final sitting. The facts at Foremost were developed at an open sitting at which the local bank manager was present and a representative of the Canadian Bankers' Association.

I might add that the Union Bank and the Bank of Toronto appear to be the only banks doing business in Alberta that have considered it good business to charge this rate in the drought area.

Yours truly,

(Signed) D. A. MacGibbon,

Commissioner.

(COPY)

UNION BANK OF CANADA

Office of the Chief Counsel.

Winnipeg, Man., August 5, 1922.

Professor D. A. McGibbon,
University of Alberta,
Edmonton, Alta.

Dear Sir:-

I am much obliged to you for your letter of the 2nd inst. The remark made in the latter part of your letter suggests a slight rejoinder. The fact is that doing business at any rate of interest, no matter whether ten or twenty per cent., is bad business for banks at many of the country points in Alberta. A statement of the losses sustained by the bank at these various points would show that even ten per cent. created no adequate reserve. It would also show how slight have been the earnings - even at rates over seven per cent. - as compared with the cost of doing business. I do not admit that there is any general practice of the kind. Here and there a manager may, for a variety of reasons, ask a high rate. That there is a general practice of the sort this bank absolutely denies. I do not infer from your letter that you are looking at the trifling circumstances that come before you here and there to the exclusion of the larger picture of the great advantage of the banks to agriculture and ranching in Alberta.

I imagine that if the banks had entirely stepped out of Southern Alberta they would have been hundreds of thousands of dollars ahead, but farmers and cattlemen would have either starved or had to trek out. The production of South Alberta this year would not have been but for the banks. It certainly was an exceedingly risky and unremunerative partnership for the banks to go into dealings with southern Alberta farmers merely on the possibility of some day receiving interest even at ten per cent. per annum on their money. What with having to encounter the risk of the personal character of the debtor, the very great crop risk, The Drought Relief Act, and the uncertain grain and cattle markets, one must see that the banks were surely very easily satisfied, - in fact I think that their attitude has been highly generous, even to the degree of simpleness.

The banks cannot, without injustice to their customers reveal all these facts on a public inquiry and must submit to such innuendo as may arise. Were it not for that fact I assure you I could give you some interesting information.

I am, sir,

Yours very truly,

(Signed) H. A. Robson.

I have reproduced this correspondence in full because it is the only defence that the Union Bank has offered in respect to its practices at Foremost, Macleod, Pincher Creek and elsewhere, (Grande Prairie, p. 53, 58). Every opportunity was given to the bank to remove any "innuendo" of fact that might exist by submitting concrete evidence to prove that these practices actually are isolated cases. None was presented. The bank has endeavored to shelter itself behind the sweeping denials of its chief counsel. In this respect it has pursued a course of action different from that of the other chartered banks operating in Alberta when questions affecting them came before the commission. At the same time Mr. Robson's letters are a defense of all the practices of which complaint has been made. This makes it difficult to form a conclusive judgment. However, certain facts are clear.

The Union Bank, like the other chartered banks, is under The Bank Act. Under it the Union Bank came into the province to make money. The Bank Act confers upon it valuable privileges. It should abide by the spirit of the Act. Section 91 of the Act makes seven per cent. the legally recoverable rate of interest. (I do not mean to suggest that the Union Bank is the only bank charging rates over seven per cent.) Whatever may be urged in favor of an eight per cent. rate, increasing the rate to nine per cent. and ten per cent. in districts which have suffered from drought, I consider not only to be a practice contrary to the spirit of the act, short-sighted as a banking policy, and showing some lack of a sense of public welfare. The matter can not be dismissed by references to the generosity of the bank and twenty-four per cent. rates of interest before the banks entered Alberta. Interest rates may have been as high as twenty-four per cent. in the early days of settlement and the Union Bank may have a very honourable history as a pioneering institution, but surely the real question at issue now is present rates of interest. Yet rates considerably above that legally recoverable are what Mr. Robson defends.

The general attitude of mind revealed in Mr. Robson's letters, and, since he is a director of the bank, undoubtedly expressing itself in the general policy of its branches, leaves something to be desired. One of the great causes of discontent with the chartered banks which has spread so rapidly among the farmers of Alberta is that the farmers resent being handled in the spirit of quasi-benevolent feudalism.

Let me add, in conclusion, that the Union Bank of Canada is the only large bank whose headquarters are west of the Great Lakes. It would appear that grievances against the banks are not to be associated peculiarly with institutions whose headquarters are in the east.

* The Union Bank vs. Farmer (11 W.W.R. 136) and other cases.

II. The Bank of Toronto. - Youngstown.

At the sitting of the commission held at Youngstown a considerable number of complaints were directed against the Bank of Toronto. The physical conditions of the district are comparable to those at Foremost. Some years ago very large crops were taken off the land but since that time there has been a series of failures or partial failures in part of the district. It was complained that the Bank of Toronto was charging ten per cent. rates of interest on farmers being required to renew their notes, when, as in the Foremost district, there was no possibility of repayment until crop conditions had changed. Branches of two chartered banks

are located at Youngstown, the Bank of Commerce and the Bank of Toronto, but complaints were only made in this respect against the Bank of Toronto. The evidence of the manager of the Bank of Commerce is that the highest rate of interest charged by him is nine per cent. (Youngstown, p. 60).

In connection with these complaints, Mr. F. H. Marsh, western superintendent for the Bank of Toronto with headquarters at Winnipeg, was present at the Edmonton sitting of the commission and was heard. Mr. Marsh claimed that ten per cent. was charged only in cases where the creditor had refused to give security asked for by the bank, failed to keep in touch with it, or acted in a more or less fraudulent manner to it, causing thereby additional costs to the bank in carrying the business. Documentary evidence in support of his contention was submitted. (Edmonton, p. 81).

The representative of the Canadian Bankers' Association who was present at the Youngstown sitting, claimed that a ten per cent. interest rate was in the nature of a penalty; in fact "a surgical operation", (Youngstown, p. 89).

It is possible that there may be few remedies provided by law of which the bank can avail itself if a debtor wishes to be recalcitrant or does not try to play the game fairly yet The Bank Act certainly does not give authority to the banks to raise the interest rates to ten per cent. on renewals as a penalty. At other points on renewals the Bank of Toronto is increasing the rate to nine per cent. on the ground that "the general business was expensive, looking after it and so was more trouble", (Stettler, p. 50). The practice thus easily passes out of the "penalty" class and becomes general. I shall later discuss the general rate of interest but I wish to observe here that practices of this sort if permitted to go on in the end lead to loose banking. The moral risk is not scrutinized as carefully for if a mistake has been made the remedy is at hand: "soak the client with more interest". The banks cannot afford to encourage that kind of banking for their own safety and the province does not desire it.

Coronation.

The Bank of Toronto and the Bank of Montreal (Merchants) are established there. Complaints were made that the Bank of Toronto was charging nine per cent. rates of interest. This was admitted by the acting manager.

"Q. What is the rate of interest at your bank?

A. Eight and nine per cent.

Q. And do you discount?

A. Yes.

Q. A loan is made for three months and when you carry that by renewals the rate would be nine per cent., advance from eight to nine per cent.

A. Yes.

Q. I would like to know if there are any nine per cent. loans in town?

A. Not many.

Q. What is the basis of discrimination?

A. Well, how the credit is standing and the way the loan has been running.

Q. When the loan runs for any time do you always increase the rate?

A. No.

Q. If it starts at eight per cent. does it go right through at that rate?

A. It usually goes through unless it is not running satisfactory.

Q. And if it has not been running satisfactorily you increase the rate?

A. Yes, often."

A second complaint was that the Bank of Toronto had persuaded farmers to pay them up in full on the promise that the bank would then extend sufficient new credit to enable them to clear up their local grocery bills, etc., but that farmers found that after they had done so the bank shut down on them and refused them further accommodation; in short had broken its promise. This evidence was confirmed by representative merchants of the town and I consider established beyond any reasonable doubt. The dereliction of the Bank of Toronto in this respect was properly repudiated by its western superintendent at the Edmonton sitting, (Edmonton, p. 88).

Complaints of breaches of faith will be discussed more fully in the report. It is a general complaint.

III. The Canadian Bank of Commerce.

With respect to the Canadian Bank of Commerce many complaints have come before the commissioner. These have been spread over a fairly wide area: Mannville, Onoway, Leslieville, Warner, Champion and Hardisty. I am led to believe that there is considerable dissatisfaction with this institution. The superintendent of Alberta branches has offered in every instance a vigorous defense of the bank. In so far as I have been able to go into these specific transactions I apprehend that this defense would be accepted as good by most bankers even though certain cases might have been handled otherwise without departing from sound banking principles. Some years ago the Bank of Commerce was highly regarded by the farmers of this province. At present I do not consider this to be true of it. The reasons for the change I believe to be as follows: When Mr. Vere Brown was western superintendent he made a conspicuous effort to understand the farmers' problems and to co-operate with the leaders of the farming industry of this province. He came personally before the annual convention of the United Farmers of Alberta to set forth the policy and relationship of the banks to its agricultural clientele. He also contributed an article along the same lines to the farmers' journal, 'The Grain Growers' Guide'. These efforts helped considerably not only to clear up misunderstandings between the banks and the farmers but also to create a sense of sympathetic good faith between them and his own institution.

It is true that when Mr. Brown was supervising the branches of the Bank of Commerce along these lines, conditions were most favorable to friendly relationships. Prices were high, credit facilities were easily obtainable, new branches were opened rapidly, the farmers were prosperous. Then in this province a severe depression set in aggravated in the south by drought conditions. Mr. Brown meanwhile, had severed his connection with the Bank of Commerce. The western superintendent's office was reorganized. The province of Alberta was made a separate superintendency with its office at Calgary. Upon the new superintendent fell the task of curtailing credit and adjusting the business of the bank to meet the new conditions. It is quite clear in any event that credits would have been curtailed, withdrawals would have been made, other adjustments would have been found necessary, even if there had been no change in the superintending head, even if Mr. Brown had continued to superintend the western branches, through the period of falling prices and shrinking credits. This would naturally have caused some loss of prestige to the Bank of Commerce. I doubt, however, if the curtailments of credit would have appeared so drastic or customers have been handled as brusquely. Moreover, I believe there would have been more attention given to explaining to clients the reasons for changing credit conditions. There would not be complete impatience for any point of view but the bank's. Briefly, I think, that to a considerable degree the present superintendent has reversed Mr. Brown's policy of endeavoring to create a bond of sympathetic goodwill between the bank and its clients, by explanation, courtesy and tact.

It must be recognized that in the superintendent's office the personal equation is of very great importance. As far as farmers' business is concerned the policy of the western superintendent is the bank's policy, (Calgary, p. 21-22). There are very few farmers' loans of sufficient magnitude to carry them beyond the consideration of the superintendent's office for this province. As representative of the Canadian Bankers' Association, the Superintendent of Alberta branches of the Bank of Commerce has been before the commissioner at many points. I think a brief statement of his general attitude is to be found in the following excerpts from the evidence given at Youngstown and Calgary:

"Q. What do you say as to the discounting of notes?

A. I have no apology to make for the bank charging discount on notes, it is a universal practice and this is a free country. The borrower is not forced to go to a bank and borrow money at eight or nine per cent. He is not bound to do it." (Youngstown, p. 81).

"A..... We do not make any secret of the fact that we discount our notes, we charge eight per cent. discount, instead of eight per cent. interest. It is open to him to decline it.

Q. Your general position in regard to compounding notes every three months is that if the people in this country do not want to do business with your bank they do not need to?

A. No. I do not take that position at all. They should be satisfied with their contract if they want to borrow money!" (Calgary, p. 34).

This attitude represents a type of banking that has its devotees. I do not think, however, that it is in accord with the past traditions of the Canadian Bank of Commerce in the west.

IV. Grande Prairie and Peace River Crossing.

The position of affairs in these two towns in the north western part of the province is as follows: Grande Prairie is the centre of a fertile grain and stock district, well built up and comparatively well settled. It is at present the terminus of the railway into the Grande Prairie district. There are five banks in the town of Grande Prairie. Peace River Crossing, one hundred and fifty miles distant, is the gateway into another large and well settled district and has been until recently the terminus of the other branch of the E.D and B.C. Railway. There is also considerable trade at this point arising from trapping, oil prospecting and river trade. Peace River Crossing has branches of three banks.

There was evidence presented to show that there are branches of more banks established at these points than the volume of business would warrant. If the cost of living is higher than at other points in the province it is not manifest to the visitor. Yet the prevalent rate of interest is ten per cent. This is defended on the ground of the higher cost of doing business. When a centre is so attractive as to include a number of banks to establish branches there, I see no reason why the rate of interest should be distinctly out of line with other towns in the province. The latest banks to establish branches at these points cannot plead particular enterprise in going in to serve a new district, nor can they plead that the banks with branches already established there are not able to provide sufficient accommodation. They can put forward no claim to special consideration for charging an especially high rate of interest. The presumption is by increasing the competition there is better or cheaper services to clients. But the only real competition at these points open to them to offer is a reduction in the cost of loans. This has not occurred. Apparently the only competition at present at Grande Prairie and Peace River Crossing is a competition that increases the overhead

cost of the individual branches and divides the profits of business, done at a high cost, to the public. Substantially the public at these two points are paying a monopoly price for the services of the banks. There probably is no formal agreement between the banks to maintain a ten per cent. rate but their policy has worked out that way. I consider these towns have a legitimate grievance.

IV. - GENERAL COMPLAINTS.

I. THE RATE OF INTEREST

I find the current rates of interest on farmers' loans throughout the province to be eight, nine and ten per cent., according to the condition of the district and the degree of competition present. I am convinced that there are very few farmers, if any, who are being supplied with loans at as low as seven per cent., the maximum legal rate laid down in The Bank Act. As it is at present drawn, section 91 is of absolutely no value in determining the maximum rate charged by the chartered banks of Canada in the province of Alberta. The section as it stands not only fails to protect the borrower from higher rates but leads, I believe, to an insistence upon discounting and compounding which increases the irritation of the client.

The average farmer desires to borrow a round sum and to pay interest thereon. The bank commonly offers to discount his note at higher than the legal rate, deducts the discount, and leaves him with less than the round sum asked for. If however, he absolutely requires the round sum, sometimes he may obtain it but usually interest is added for the sum that is not deducted. That is interest is charged upon interest. I shall discuss this practice later. Here I desire to point out that it becomes a peculiar source of annoyance when discounting, to which the farmer objects in itself, becomes the mechanism whereby the bank ensures that its non-legal rate of interest is paid in advance and thus made safe against legal attack.

The Act should fix in clear and unambiguous language a legal maximum rate of interest. This legal rate should be stated in terms of exact interest only. For charges lower than the legal maximum rate of interest, the bank should continue to have the privilege of discounting. Moreover, violations of this section of the Act should entail a penalty and be punishable in the same manner as other offences against the Act.

It is not sufficient to rely upon competition to keep the rates down to a reasonable level -- with the branches of five chartered banks at Grande Prairie and three at Peace River Crossing interest rates continue to stand at ten per cent. The small number of banking institutions in Canada at the present time makes it quite possible to act together on general lines such as with regard to interest rates, (See Discounting). Where this occurs the only protection against undue exaction is regulation. The present section which purports to set a limit on the rate of interest is ambiguous and is commonly disregarded by the chartered banks operating in this province.

At the present time I consider the legal maximum rate of interest should be placed at eight per cent. First class bonds yield as high as six per cent. and mortgage companies, with better security in many instances than the bank can take, are obtaining at least eight per cent. Under these circumstances I do not consider that eight per cent. exact interest as a maximum rate is an undue charge. At a good many branches the banks are charging higher rates for at least a portion of their business. If the section were properly drawn and sanctioned with appropriate penalties, it ought to be capable of enforcement.

It may be objected that under a hard and fast maximum rate the banks would be unable to loan to certain farmers. The business would not be sufficiently remunerative and they would cease to cater to it. I have no doubt that there would be a certain number of farmers ready to pay nine, ten or even twelve per cent. for credit accommodation from the bank. There are always speculative people

who are ready to take a chance. But if the loan is so risky that nothing but a nine or ten per cent. rate will warrant the bank accepting the business it should not be made at all. Under the present conditions of agricultural production in Alberta, the industry cannot stand more than an eight per cent. rate. The odd farmer who attempts to operate with bank credit at nine or ten per cent. may succeed, but in the majority of cases he will go behind. Eight per cent. I consider to be the outside limit.

Moreover, a group of farmers whose resources are comparatively slight and who find it hard to secure necessary accommodation at the bank, have the possibility of organizing a rural credit society under the provincial act for this purpose. Farmers who have built up solid capital resources feel independent and object to the close regulation which the provincial credit act involves, (Red Deer, p. 10). Already in a number of districts, however, I believe it has operated to relieve the difficulties of those whose lack of capital resources made it difficult for them to receive credit in the ordinary way at the bank.

It might also be objected that to hold the chartered banks strictly to a maximum legal rate of eight per cent. would deter them from opening up branches in new districts as quickly as they do at present. I am not sure that this is a serious objection. In the last ten years one hundred and seventeen branches of chartered banks have been closed in this province. I think that if the general effect of a maximum rate of interest provision is to lead to a more careful survey of the possibilities of a district before entry is made then any disadvantage will be more than counterbalanced. The disarrangements that arise from a bank entering a district and then withdrawing must be considered. Moreover, except in perhaps a few instances, at isolated points, the higher rate of interest tends to destroy the real advantage to the farmer which arises from the bank establishing a branch in a new community.

In conclusion, I should like to point out that I consider ten years too long a period to endeavor to set an effective maximum rate of interest. A considerable rise or fall in the market rate may take place in such an extended period. If the competitive rate rises beyond the legal maximum means will be sought to evade the regulation or the public will suffer from lack of credit accommodation. If the competitive rate falls there is an avenue to the exaction of monopoly profits. The Act should include a provision bringing this section under review at least at the end of every five years.

To sum up:

- (1) The maximum legal rate of interest should be set at eight per cent.
- (2) The privilege of discounting should be limited to rates below this maximum.
- (3) Offences against this section of The Bank Act should be punishable.
- (4) The maximum legal rate of interest should be reviewed at least quinquennially.

II. DISCOUNTING.

The practice of discounting notes rather than of charging a straight rate of interest was objected to at a great many points in the province. The objection was chiefly on the ground that the interest was thereby deducted before it had accrued. The investigation confirms the evidence of the general secretary for the province of the United Farmers, Mr. H. Higginbotham;

"..... The other point in which there is considerable complaint in regard to the interest is the practice which the banks have of deducting the interest in advance from the loan. Many people contend that that is morally indefensible to deduct interest on borrowed money before the man, before the loan has been granted. People write in to the central office of the United Farmers of Alberta and ask what they shall do in that event. All we can advise them is if that is the bank's policy, if the bank insists upon that, they will probably have to let it be arranged that way in order to get the money but at the same time our organization feels that it is bad practice on behalf of the bank. It creates a bad impression in the mind of the man who goes there and asks for a loan when he does not receive his loan in full and is required to pay interest on his loan in full. Lots of our people whom complain about that feel that it is morally indefensible." (Calgary. -. 14).

In addition to this view, I found considerable confusion as to the actual rate of interest that discounting entailed. The discount rate is slightly higher than the straight interest rate at the same figure. It was obvious to me that in many instances farmers thought the difference to be much greater than in actual fact it is. Further, as I already pointed out, the farmer desires to borrow a round sum of money, deducting discount leaves him with less than the sum desired.

The contention of the bankers in brief was that discounting had always been recognized as a fair banking practice, in fact that discounting was as old as banking itself. If the farmers did not care to do business with the banks on that basis they were under no compulsion to do so, (Calgary, p. 34).

The defense does not strike me as very strong. It is all very well to say that the farmers are "not forced to go to a bank and borrow money" but the chartered banks occupy the short term credit field. They do that by virtue of the privileges they enjoy under The Bank Act. In point of fact the farmers are forced to go to the banks and borrow money. The fact that the banks are able to take advantage of their necessities may be pleaded but I doubt if its advocacy strengthens the position of the banks.

If granting a loan with a straight interest rate is more convenient to the client, and the only reasons for not doing so are those referred to above, I do not see why the desires of the client should not be respected. Moreover, there is evidence to prove that in the past farmers have been granted loans on notes bearing straight interest: Mr. Joseph Woodruff at Vermilion pointed out that last year (1921) he borrowed several sums at eight per cent. which were not discounted. This year he met a changed policy and interest was deducted, (Vermilion, p. 3). At both Camrose and Coronation the branch managers of the Bank of Montreal, (Merchants' reported that for the bulk of their business interest was added to the face of the note, (Camrose, p. 36), (Coronation, p. 46).

The truth is at the present time there is being imposed upon the farmers of Alberta practice that in the past has not been insisted upon and has always been repugnant to them. The evidence is clear:

"Q. Another point in regard to discounting, your argument was that you had always done so, now....

A. (The Superintendent for Alberta Branches of the Bank of Commerce), Yes.

- Q. Now was there any understanding between the banks recently about that, about that policy in the west?
- A. So far as our own organization is concerned, we found that in some branches the practice had leaked in of making exceptions of the rule of discounting.
- Q. Was there any general arrangement that hereafter the banks would confine themselves to discounting?
- A. No. I would not call it that. I believe there was a discussion of the subject among the banks at Winnipeg and it was considered that it was a mistake to depart from the practice. I am satisfied that there was no hard and fast agreement.
- Q. I have heard the evidence of Mr. Woodruff: He says: "A year ago I went into the bank and they didn't take the interest off last year. On the 16th of August, that is a year ago, I borrowed one hundred dollars which was not discounted. On the 13th of September, I borrowed one hundred dollars which was not discounted". But this spring he says it was discounted.
- A. That arose there perhaps from the fact that some clerk, to save him trouble, found it easier to put it through that way. These are checked up by our auditors every year and if they find that it has been done they draw attention to it. The desire is to maintain a uniform practice.
- Q. Going back to the Winnipeg arrangement, there was a general understanding?
- A. I would not say that. On that question you cited you have the evidence of a bank manager and (at) another point that all the time he was stationed there he never discounted a farmer's note.
- Q. It was an understanding as far as you were concerned?
- A. So far as we were concerned we decided it was a wrong practice to depart from the old custom.
- Q. You discussed it?
- A. We discussed it with the other banks, yes. Those things come up at the meeting of the men interested in that business the same as in any other business.
- Q. And the bankers naturally discuss very..... discussed various aspects of that with a view to deciding upon a general policy?
- A. Yes, that I presume was the purpose of the Canadian Banker's Association.
- Q. I understood it was a meeting in Winnipeg, it was the Canadian Banker's Association was it?
- A. No, but I say that was the purpose. No doubt the purpose the purpose of the (for which) Canadian Banker's Association was organized. There is a sub-section of the organization in Winnipeg.
- Q. And it was in that section that it was discussed?
- A. Yes, I think so.
- Q. And in accordance with that there was this general, will I say, readoption of the policy?
- A. Not so far as my own institution is concerned, which is the only one I am qualified to speak for, we didn't wait for anything of that kind. The instructions were sent out from Winnipeg to my knowledge before there was any, certainly before we knew there was any agreement between the banks at Winnipeg in general." (Calgary, -. 38-40).
-
- "Q. You are familiar with the understanding between the banks with regard to discounting?
- A. (Mr. John Kennedy, representing the Alberta Superintendent for the Bank of Montreal). "As Mr. Corbet said it has always been the policy with the banks to discount, it has always been their rule. The rule to add interest to the note has been peculiar to the west. It occurs for one reason which will account for it. The customer comes in who wants

three hundred dollars. He doesn't want two hundred and ninety. The other reason is that it has been more easy for the manager or the accountant to make up his interest after hours instead of doing it as the client is in, the head office has never authorized it but.....

Q. Winks at it?

A. It was considered at the meeting of the banks, in considering it they felt that to have one practice in one part of the country not in vogue in the other was not good business and instructions were issued to the banks to discount.

Q. In certain areas?

A. No, I don't think there was. The banks discussed it, perhaps the General Manager didn't know it existed until that time.

Q. That would be until about a year ago?

A. Two years ago." (Calgary, p. 67).

"Q. In regard to the three months period, you consider that vital to banking, the three months' renewal discount?"

A. (The Supervisor of the Royal Bank for Alberta) "Yes. I consider that a very necessary policy."

.....

Q. Now, with regard to the compounding of interest, do you consider that equally vital to a review of the loan?

A. In our institution it is founded on practice entirely, it has never been objected to by a very large proportion of our desirable farmers.

Q. And in a general way you actively began to insist upon that within the last year or a year and a half?

A. Yes, in a general way as the result of the understanding. (Calgary, p. 72-74).

The effect of this agreement is to impose a higher rate of charges upon the clients of the bank. This increase in the aggregate is of considerable importance. Quite apart from the dislike of the farmers to this form of lending, it raised further questions. The statutory powers of the Canadian Bankers' Association are set forth in considerable detail in the Bank Act. I can find nothing therein to warrant a meeting to agree upon imposing increased interest charges upon the users of banks. A common definition of a monopoly is that a monopoly is an organization with a substantial control over price. When a sub-section of the Canadian Bankers' Association meets and makes arrangements to change their practice of their institutions and the effect is to impose a higher charge upon their clients it is acting as a monopoly.

Moreover in connection with this concerted attempt to enforce discounting one fact stands out quite clearly. Despite anything that might be said in defense of discounting no real reasons was adduced why the farmers of western Canada should not continue to have their paper drawn in a form convenient to them. After all the banks must exist by rendering satisfactory services to their clients. There seems to be an idea abroad that the reverse is true. I consider that the farmers have a legitimate grievance in that the banks have used the Canadian Bankers' Association as a means of getting together and agreeing upon discounting farmers' notes instead of allowing them to bear straight interest as had previously been the practice. This not only increases the rate but is a cause of much irritation to the farmers who much prefer borrowing on a note bearing straight interest. I see no reason why the banks should not revert to their former practice and consult the wishes of their clients.

III. "CHARGING INTEREST UPON INTEREST".

A closely connected grievance with that of discounting is that of "charging interest upon interest". This may be illustrated by the following letter from the manager of the Bank of Commerce branch at Mannville to the secretary-treasurer of the Municipal District of Buffalo Coulee. Behind it there is the concerted agreement of the banks to enforce discounting:

(COPY)

THE CANADIAN BANK OF COMMERCE

Mannville, Alta., 31 March, 1922.

The Secretary,
Buffalo Coulee Municipal District,
Salteau, Alberta.

Dear Sir:-

Referring to our telephone conversation, the following is an example of our requirements in connection with computing discount on notes:

Note dated 31st March, 1922, due 4th October, 1922 for \$2000, bearing 7%.

No. of days.....187

Discount.....\$71.72

In cases where discount is not paid
at date note is negotiated, interest
is added to amount of discount -

Interest on \$71.72 for 187 days 2.55
\$74.27

If your councillors wish to overcome the matter of paying interest on discount, it will be necessary for them to arrange for the interest at the time the note is negotiated. They are no doubt aware that it is the custom of all banks to discount notes, not add the interest to them. We are quite within our rights in computing interest as above and it will be necessary for you to abide by our policy in this respect.

(Signed) R. P. Thompson,
Manager.

In this instance the loan was being made to a municipal district and the discount rate quoted is seven per cent. But computed as straight or exact interest it is equivalent to seven and a quarter per cent. It need scarcely be pointed out that on farmers' loans made at an eight or nine per cent. discount rate and computed similarly the straight interest rate would be accordingly higher.

This practice undoubtedly aggravates the sense of injustice the farmer has with respect to discounting. It makes him feel that the bank is on the alert by short term loans maturing in mid-summer and requiring to be renewed until harvest in rather small and somewhat usurious ways to take as much out of him as it can. When he complains he is told the bank is quite within its rights and "it will be necessary" for him "to abide by its policy". In the instance cited the bank could have granted a seven and a quarter per cent. rate but have given it on a straight interest note. Under section 91, however, the bank could not legally have collected seven and a quarter per cent. if its charges were challenged in the courts, hence the roundabout method to accomplish the same thing and make it law-proof.

IV. THREE MONTHS NOTES.

At many points in the province objection was taken to the period for which a farmer may obtain a loan. It was shown that the

usual period a bank will grant a loan to a farmer is three or four months, whereas the farmer's operations commonly extend from six to eight months. He requires a loan granted in April that will mature in October, November or December. He can only obtain one to mature in July or August. The farmer's complaint is that the banker knows when he makes the loan in April to run until July or August that it cannot be paid at its due date. Yet bankers require the farmers meet those conditions. When the note is renewed interest is compounded and interest charged upon the discount. Other conditions may be imposed. What the farmer wants is a loan made on the basis of a straight note for the whole of his crop operations, that is, to the date when he will be in a position to settle up.

The prevalence of this complaint warrants a full description of the conditions under which a farmer receives a loan. After the farmer has completed his year's operations, he presents a financial statement to his banker. Ordinarily this is quite early in the year, January, February or March. (The Union Bank seems to delay further, Macleod). He is then promised a line of credit designed to carry him during the course of the coming year's production. The total may include a certain amount for putting in the crop, for current expenses and for harvesting, (Calgary, p. 28). With the promise of this line of credit he plans his year's operations and relies upon making use of his credit by several notes as he needs the funds. This promise of credit, however, is not a contract:

The Superintendent of Alberta branches of the Bank of Commerce: "... I want to make the position absolutely clear. A line of credit is extended to a man. It is done on the understanding that the bank will extend the accommodation provided that the position of the customer as it is presented to the bank at the time the application for the crop (loan) was made remains the same, that the statement which has been submitted is accurate, and that nothing occurs in the meantime which would be detrimental either to the standing of the borrower or the bank's position. In other words, I want you to understand clearly the bank would not authorize a credit and enter thereby into a hidebound contract." (Calgary, p. 30).

It follows that if in July conditions are not very favorable the farmer may find his credit cut down. He may not be able to do more than renew his first note. In addition he may be required to give further security, probably will, in the shape of a first or second mortgage upon his farm, chattel mortgages upon his animals etc., according to the condition of the case. There is a practical unanimity of opinion among the bank superintendents examined that the chief reason the bank insists, in most cases, in loaning only for three or four months' periods is the opportunity it gives the banker to review the farmer's condition and to require additional security if it is thought necessary. The point is also made that in many instances the bank desires to protect itself against other creditors the farmer may have rather than that they doubt the farmer's good faith, (Calgary, p. 31). The cost of this review, it is said, is not more than covered by compounding the interest at the same time, (Calgary, p. 66). Further, it is claimed, that only in very rare cases has this insistence on midsummer renewals worked a hardship; the notes are generally renewed with such additional safeguards as the bank think proper.

The facts as I find them are that this requirement of midsummer review does not seem to cause any great sense of grievance in districts where conditions are stable, and crop returns are steady year after year (Red Deer, p. 11-12). But even in those communities the farmer is under a sense of uncertainty lest unfavourable weather conditions bring the bank down on him.

It is obvious that the practice of dating notes so that they will mature at a period when the farmer cannot possibly be expected to pay them gives the bank considerable power in the way of demanding security. Since discretion rests with the banker as to what constitutes ample security, and at this time he has the whip hand, we may conclude he will take good care to protect himself. The solution is not so simple. In parts of the province where there have been crop failures and the farms as a rule are mortgage there are a mass of claims against the farmer and his land which make the obtaining of adequate security at times difficult. Moreover, if crop prospects are not good, or often, in any case, writs and attachments issue against these farmers in an attempt to secure a preferred position in the fall distribution of the farmer's funds.

It is just in these parts of the province where there have been crop failures that complaints against the banks for insisting upon midsummer renewals are most general and most severe. The banker pleads that if he grants a loan in April to mature in the autumn and crop conditions become unfavorable during the summer he cannot take measures to protect himself until the due date of the farmer's note. In the meantime other creditors may step in and take all the security available, leaving the banker to suffer. On the other hand, what the grain farmer desires is a sure credit for a period of from six to nine months to enable him to complete his operations.

If we eliminate districts where crop conditions are stable and there is practically no complaint, if we also eliminate individual farmers in all districts whose general resources make it possible for them to secure the longer term loan they desire, the difficulty is limited to farmers rather deficient in capital resources, living in districts where year in and year out crop conditions are rather uncertain. Unfortunately this area has been of fairly large extent in the last two or three years in this province. Moreover, the general effect of the great fall in grain prices since the war has been to convert what would nominally be paying crops into partially failures, financially speaking. Hence the prevalence of the complaint.

The natural way out of the difficulty, one, we may hope, that will eventually occur, will be a gradual increase in the capital resources of the individual farmer. This, however, will take considerable time. Besides farmer immigrants will be entering this province to settle new land for many years to come. They will have to face the same credit problem. It is highly desirable, therefore that a solution be attempted. The essential elements of the case seem to be to provide a form of credit contract which will give the bank in the event of certain contingencies the power to take those steps it now often deems necessary and does take upon the renewal of the note. Practically the solution lies in extending the power of the bank to take security when it makes the loan initially. There is the further advantage in such an arrangement: now when the farmer at renewal is called upon to give security he is at a disadvantage, he already owes the money and cannot withdraw or curtail the season's operations. If the problem were frankly faced at the beginning of the season he would be able to discuss the terms with his banker on a more even basis. If necessary he could curtail his operations for the season.

A suggestion was made to the commissioner that the banks should be allowed to take a lien on growing crops other than a seed grain lien. (Foremost, p. 9). In effect this would give the bank priority on the proceeds of the harvest over mortgage companies and other creditors. If a bank in the spring supplies the fund necessary to a farmer to enable him to put in and harvest a crop I think it may fairly claim priority in payment from the proceeds of that crop, over interest on a long term loan and other claims out-

standing at the time when the bank extended the loan. For this reason: the farmer makes all these payments out of the proceeds of his crop. If there be no crop put in there is none to harvest and then all these outstanding claims would remain unsatisfied. The bank loan financing crop production makes possible payments upon the latter and would appear to have a right to a prior claim, provided, of course, this lien should extend only in so far as funds were supplied for the current year's operations. Such an innovation however, would need to be most carefully examined and I doubt if it would be as satisfactory solution as the more simple one of allowing the banks to take initially the security that they now take at the midsummer renewal.

The interests of the bank and its clients in certain cases are one. In this instance, if the details could be worked out amicable by representatives of the agricultural interests and of the banks, it would do much to improve the relationships between them. It would be a considerable step forward in adapting the system of chartered banks to agricultural requirements. It must be noted that this problem would have to be considered and solved by any system of banking, provincial or otherwise, which might be devised to serve the needs of the farmers of the province.

V. CURTAILMENT OF CREDIT.

The general curtailment of credit coincident with the fall in prices has engendered the feeling in many parts of the province; (1) that the banks were themselves responsible for the fall in the price of farm products; (2) that since the fall occurred they have not come to the assistance of the farmers in a sufficiently generous manner. Before I discuss these views I wish to point out that the condition of affairs in the agricultural districts has been aggravated by partial crops in southern Alberta, lack of adequate supplies of feed for cattle, and the generally recognized fact that prices fell relatively lower in agricultural products than in other commodities.

The banks cannot be held responsible for the fall in prices. In the world to-day there are two great groups of nations, those with their faces set towards economic recovery from the effects of the war, and those such as Russia and Germany who have sought to defer the evil day by pouring forth ever increasing floods of fiat money. A fall in prices has been general with respect to the first group. With respect to Russia, Germany and other inflationist countries the rise of interior prices has not kept pace with a fall in the exchange rate. The nations that have accepted deflation and sought to put their houses in order are slowly recovering from the economic exhaustion of the war: the inflationist group tread forward only towards national bankruptcy.

While there has been a fall in prices in Canada at the same time our exchange rate has improved. With respect to the relatively greater fall in the price of farm products this has undoubtedly worked a heavy hardship upon the farming class, but I do not consider the banks are to blame for this. The reason lies probably in the greater difficulty of adjusting supply to demand in the case of agricultural products as compared with manufactured goods: (1) supply fluctuates in part with the bounty of nature; (2) curtailment of acreage takes time to accomplish; (3) marketing organization has not been brought to a very high degree of efficiency. In addition Canadian farmers have suffered especially from the hostile tariff regulations of the United States, and the cattle embargo of Great Britain.

With a view to forming an opinion in respect to the belief that the banks had not been sufficiently generous to western farmers since the fall in prices I have aggregated figures supplied to

me by the individual banks covering current loans running for over one year, in 1916 and in 1921 for the branches of the chartered banks in the province of Alberta. In 1916, current loans running for over one year totalled in round numbers seventeen million dollars. In 1921, this total had increased to over fifty-two and a half million dollars. The significance of these figures lies in the fact that they represent fairly accurately the amount of carry-over from one year to another. The banks were carrying over at the close of 1921 over three times as large a sum as they were in 1916. In the light of these figures I consider the banks have extended their assistance to the farmer on a much larger scale than has been commonly recognized. I do not think that any provincial institution could have shouldered the same burden added to the general responsibility of carrying current business. Even with the best will in the world to do so it would have been beyond its power; the united strength of the Canadian banking system has stood the strain. Of course with a system of chartered banks that have at present three hundred and fifty branches in this province it is inevitable that there will be individual cases of misjudgment and harshness. These when discovered are not to be condoned but they grow out of the personal equation in directive, superintending or managerial offices and cannot be eliminated in any system. Speaking generally, I do not consider the farmers in this province have a legitimate grievance against the banks with respect to the degree they have been carried during the depression and drought of the last few years.

VI. CREDIT INFLATION.

There is much more force in the complementary complaint that during the regime of high prices the banks granted altogether too much credit; in fact that they went beyond liberality and actively urged farmers to expand their borrowings. Credit inflation has worked out injuriously in two respects particularly. In certain districts there were bumper crops in the years of high prices. Farmers increased their investment in land, and, largely financed by the banks, made heavy outlays in the expectation of a repetition of the same favorable conditions. Where, however, fat years have been followed by lean, by a series of dry years and poor crops, these farmers are in a worse condition to-day than those living in districts who were not favored with bumper crops and who therefore did not expand their operation to the same degree. It will take the former group longer to become "independent" once more than those who did not enjoy prosperity in the years of high prices for grain. The second instance where loans were made very freely was to finance the raising of stock. In an article in the Grain Growers' Guide in January, 1920, the Superintendent of the Central Western Branches of the Canadian Bank of Commerce said:

"To my knowledge some of the banks have for several years been systematically canvassing good grain farmer customers in stock districts to get them started in live stock..... in view of the needs of the western live stock industry the banks have declared it to be their policy to make loans to farmers for the purchase of breeding cattle, and, subject to reasonable conditions, to grant renewals permitting young animals to be carried to maturity.".....

"The actual fact is that some of the banks have been begging farmers to take credit for live stock. During the past year, on the initiative of the banks, an arrangement was entered into with the Dominion Live Stock Commissioner whereby the banks conducted an organized campaign to interest their farmer customers in the purchase of feeders. The result has been extremely gratifying, but I need not go into the facts here, as the statistics of the Winnipeg stock yards tell the story." (Reprint of article, p. 5, ff.)

Evidence confirms these statements. Farmers "were approached by managers to take one, two and three, up to five thousand dollars and put it into stock", (Red Deer, p. 11). Too often the farmer, operating on a shoe string margin, did so and when the bottom fell out of live stock prices he was very badly hit. Not only has his equity in the stock itself in many instances disappeared, but even his land is additionally encumbered with first or second mortgages. This condition of affairs is common in parts of the province where the campaign for stock production was carried on.

We may accept the fact that the banks loaned too freely in the period to which I refer without at the same time holding them wholly responsible. They have a responsibility for this policy but in fairness certain other circumstances should also be taken into consideration. We must recognize that during the later years of the war great emphasis was being laid upon production. It was considered not only a patriotic duty if a grain farmer raised as much grain as possible, but apart from war needs, the bringing of much new land under cultivation was viewed with satisfaction as part of the process of colonization and settlement of the province. It was considered good business by everybody. All of the responsible leaders of public opinion, public men and the press favored this policy. The banks went with the tide.

The same conditions existed with regard to stock raising. The government, agricultural experts, the press, urged strongly the advisability of increased stock production. The statement of the western superintendent of the Bank of Commerce was made to repel attacks upon the banks who were "accused of retarding the development of the western livestock industry by their unwillingness to give credit to farmers to buy stock". On the whole I believe when the policy of liberal credits to encourage the stock industry was being given effect it was with the thorough approval of the great mass of public opinion. Moreover, I cannot take the view that the farmer himself has no responsibility in making a judgment in circumstances of this nature, (Camrose, p. 12). He must to some degree at least, accept the responsibility for his own business ventures. Other people have to do so.

There is a controversy as to whether the banks were blame-worthy or not because in certain instances farmers were forced to sell their cattle at low prices when the banks refused to carry them longer. It is difficult to form an opinion. It has been urged that a farmer with cattle who, because of drought, lacked feed, and was forced to sell his cattle in the fall, suffered no injury by a refusal of credit. While he took a heavy loss his position would have been worse, in view of the continued depression in the live stock market, if he had paid heavy feed bills throughout the winter only to realize in the spring comparatively less for his animals. Farmers at Grande Prairie gave evidence to the effect that where a farmer had feed and looked after his cattle he had been carried by the banks. (Grande Prairie, p. 4).

Certain general considerations develop with respect to these occurrences. Had the campaign for greater production taken the line of better farming rather than more farming, the experience would not have been so painful. The greatest sufferers have not been the quarter-section or even the half-section farmers but the bigger man who is to-day financially embarrassed and land poor. His endeavors to cultivate more and more extensively have involved him in grave difficulties whereas the farmer who threw his efforts into better tillage has come through recent seasons in much better shape. He has had fair crops, in not all but in most districts, while the wide but often stubble-scratched acres of the extensive farmer has not yielded a paying return.

The campaign for stock farming in so far as it stressed a moderate degree of mixed farming was wholly to the advantage of the farmer and the province. In many parts of the less severely touched drought area a few dairy cows, together with gardens and hens, have enabled the farmers to finance their daily living during the summer out of the farm rather than by increasing the bank loan or the store bill. This lessens the sum to come out of the proceeds of the year's crop in the autumn. In this respect I have the opinions of bankers, wholesalers and merchants (Medicine Hat, p. 20, 33), that to rely wholly upon the grain crop for the year's living makes farming in many districts altogether too much of a speculation. This has been a hard lesson to learn but farmers that two or three years ago were buying butter and condensed milk are to-day financing their small daily expenditure out of cream cheques and the sale of small produce.

On the other hand the campaign to go into beef production proved peculiarly ill-timed. It was launched when post-war adjustments were by no means completed and a stable market for the product assured. It was a huge speculation for which I have said the banks were not alone to blame. They co-operated, however, to make it possible.

I think one reason why the province was over-loaned some years ago along the lines set forth above connects itself with the way the banks conduct their business. Their eyes seem to have been fixed absolutely upon the individual loan, as it came before them for scrutiny, and the promise it afforded of profit. There seems to have been no limit placed upon the mounting aggregate of loans at the various branches. The branch manager had a free hand on individual loans of from one thousand to five thousand dollars according to his experience. Larger loans were referred to the superintending office before being made. I have asked many branch managers if they had any general limits placed upon their aggregate of their loans for their particular districts but in no case was this admitted. The bank superintendents do not seem to have made any financial survey of the districts in which their branches are located with a view to determining adequate normal credit requirements beyond which the danger line of over-lending would be crossed for that district. In the event the superintending offices had no general idea of the districts to go upon in watching the climbing aggregate of loans. They relied upon a scrutiny of individual applications and these only came to them when they were of a certain magnitude. Beyond this they seemed to have no check as to when or when not their local managers were over-lending a district. The result was a general credit inflation entailing peculiar hardship when its basis, an unstable post-war market for farm products, collapsed.

VII. BRANCHES OF FAITH -- CHANGING LOCAL MANAGERS.

A leading cause of discontent has been the number of changes made in branch managers in the last few years. It is felt that just when a branch manager is beginning to get an appreciation of the problems of the farmer in his district, beginning to be able to appreciate the moral risk in a loan, he is moved to another point. It is complained also that where a branch manager has been over-generous with credits, he is removed forthwith and a new man installed to ruthlessly "clean up" the branch. As a result of this policy it is alleged that on many occasions promises have been made by one bank manager but the promise has not been kept because he had been removed and the new manager knew nothing of the agreement.

(M. Higginbotham, general secretary of the United Farmers of Alberta): "There is, however, a class of complaint where the farmer has been promised credit from the bank, possibly in the fall, and in the spring does not succeed in getting the credit from the bank which he anticipated.

That is a fairly general class of complaint and in a number of those instances which I can remember it has been where there has been a changer of managership and the new manager is not familiar apparently with the promise, or whatever he was given by the previous manager, which I would take would be a merely verbal conversation between the bank manager and client. I have received a number of complaints along that line where the man has claimed that he has been promised credit to put in his crop and owing to a change of bank managership he found he couldn't get the credit. Very often he finds out when it is pretty and it is too late to do much in the way of getting credit

Q. elsewhere.

Q. Now in regard to that would you consider that there were two evils, might we say, growing out of that, in the first place the inability of the farmer to get credit because it is too late and in the second place a certain sense of injustice or a sense of feeling that there had been a breach of confidence, if not with the manager, at least with the bank?

A. Yes, I think these are the two grounds on which the complaint is usually made. The farmer feels in a case like that that the bank has broken faith with him and then it occurs when it is pretty late for him to arrange the financing of his spring crop.

Q. In connection with that would you say that a considerable amount of the sense of grievance, which exists in the province, such as there is, arises out of that particular case?

A. Well, I would say that complaints of that kind are, they occur at fairly frequently intervals." (Calgary, p.8-9).

There have been an extraordinary number of changes of managers in the branches of the chartered banks of this province in the last few years. According to information supplied me by the banks there are at the present date (August 10, 1922) three hundred and sixty-five branches in Alberta, five of which are sub-branches. Of the three hundred and sixty branch managers handling the business, sixty-two have been appointed to their present posts within the present year (1922). Seventy-nine were appointed in 1921, eighty-seven in 1920, sixty-four in 1919 and twenty-three in 1918. If we neglect 1918, over eighty per cent. of the Alberta branch managers are post-war appointments. If we omit the figures for 1919 as adjustments particularly due to the war and consider only 1920, 1921 and part of the present year, two hundred and twenty-eight appointments or sixty-three per cent. have been made within this period. Of the total number of branch managers in Alberta, eighty-five or twenty-three per cent. are in their first managerial position. The great bulk of these changes have taken place during the years of depression. It is clear that the farmer's feeling that the rate of managerial turnover is extremely high is fully warranted by the facts.

The loss of personnel during the war has undoubtedly accelerated promotions, and each change usually causes others. Another cause of change has been the opening up of new branches in the west. In the five years between 1916 and 1921 over nearly two hundred new branches were established in this province, the majority of these in 1919. During the same period over fifty branches were closed. In 1919 it was stated that the banks had opened something like nine hundred new branches in the western provinces in a period of comparatively few years, "which means nine hundred green managers to be tested -- in some cases weeded out -- and carefully trained. And it takes nearly as many years to make a good bank manager as it does to make a good farmer." .x.

.x. Mr. Vere Brown, of the Bank of Commerce.

Considerable evidence was presented to show that misunderstandings were frequently connected with a change in branch managers, (Calgary, p. 48). It is quite obvious, I think, that dissatisfaction, arising from these misunderstandings, is increased when the change coincides with a period of depression. The new man is identified with the more careful policy of loaning that the change of conditions demands. The bank and its new managerial representative appear to be forcing credit restrictions on the community instead of changed conditions forcing a change of policy upon the bank. Moreover, I believe, there is a genuine loss in banking efficiency as well. A sound banker who knows a district of twelve or of fifteen hundred square miles is surely in a better position for a considerable time to carry on business than an equally sound banker who enters upon the field a stranger. In so far as excessive changes in managers have arisen out of conditions that the banks themselves could not control -- loss of personnel in the war and the exceptionally rapid expansion of the western banking field -- those causes have passed and we may expect improvement.

There is, however, the further question as to just how far it is not a definite policy of the banks to keep their managers circulating from post to post.

(H. Higginbotham, general secretary of the U.F.A.):

".... The points I touched upon before in regard to the farmer being promised accommodation and refused it, possibly by another manager of the same bank, is one which seems to have given rise to the impression among many of the country people that the banks have a definite policy of changing their bank managers when they want to get in their loans and that the bank considers that the man who has been making these loans is not the best type of man to recover these loans. If that is the bank policy and there is an impression abroad that it is, that also is a matter which has given rise to a feeling of distrust in our present banking system." (Calgary, p 15.)

On this point the evidence conflicts. The superintendent of the Alberta branches of the Bank of Commerce states emphatically that "it is not the policy of the Bank of Commerce", (Calgary, p. 50). The western superintendent of the Bank of Toronto discussing complaints arising at Coronation said:

"..... The fact is that in this particular case that he is no longer there and that perhaps is the reason that these particular statements have been made. This particular manager never knew of that complaint being made. As a matter of fact we removed him from Coronation because he had been rather too long there and had become sympathetic.

Q. That is to say that when a banker goes into rural community and you consider that he is being too sympathetic you remove him and put in another man to clean up?

A. No, we do not as a matter of general policy, but if a man spends nine years at one point and has become possessed of the local view point and has lost his perspective I am quite sure that it is in the interests of the public and the bank that he should be given another point.

Q. And therefore their removal follows?

A. Yes, and furthermore, the reason for that, in my estimation, is that it is not fair to a young man to keep him four or five years in one of these relatively small places; if he is going to progress as a banker he must have a varied experience."

(Edmonton, p. 88-89).

Other instances have come to my attention of a change taking place under similar circumstances. Theoretically, with some banks it may not be a general policy, but in my judgment, it practically is. It happens and continues to happen, really without exception with all the larger banks. My impressions are that branch bank managers are being changed oftener than in the long run is good business. Moreover, I am inclined to think that the rapid expansion of the banks in western Canada has led to the appointment of a certain number of inefficient managers. For a while the results of such an appointment does not appear but ultimately the man is removed and the district lulled by easy credit into bad financial habits, endures a drastic clean-up with great irritation and in a certain number of cases with real hardship.

Secondly, I think the banks are pushing the idea of changing managers to give young bankers varied experience to too great an extent. It should be possible to largely secure this varied experience before the status of manager is achieved. The effect upon the young bank manager tends to be bad. It leads him to take less interest in the permanent development of his district along sound lines, even though it may give him facility in the more mechanical aspects of estimating what is sound loan. He is part of a procession. As such there is a loss of efficiency during the period he is becoming acquainted with his district. Moreover, with his eye on the next post, he sometimes, I fancy, fails to know it at all. When his efficiency should be at its highest point he moves on and the experience has to be repeated. I consider it only too likely that the peripatetic country branch bank manager will have ultimately only a ready facility in rule-of-thumb banking. He will lack the higher kind of skill and sense of public service that in some countries have made country bankers the architects of their nation's progress.

In the third place, if a bond of confidence that should exist between a banker and his client has been formed, it is broken and must be re-created. This necessarily takes time. Reading the record of a client's transactions with the branch may give a new manager some clue to the nature of his customer but it is a poor substitute for personal knowledge. Moreover, the bond to be true and of value to each must be reciprocal. The customer has not the advantage of a study of the new manager's record. In uncertainty and doubt he must wait and learn by experience. When farmers think that young city bankers sent to be managers at rural points in order to gain experience look upon farmers as "animals that have to be put into a corral at night and fed oat sheaves" it takes time to remove such impressions. Moreover, with regard to complaints that verbal promises made by one bank manager has failed to be honored by the next, it is certainly true that changes lead to misunderstandings. This embitters the client of the bank who does not realize that the verbal promises of a branch banker affords him no certainty in a pinch, (Calgary, p. 47 ff).

VIII. APPLYING CURRENT BALANCES TO PAST DUE ACCOUNTS.

With respect to complaints that small current balances are withdrawn from the farmer's account and applied without notice to interest charges on overdue loans I am inclined to think that cases of this nature are exceptional. I cannot see anything in such a practice except very short-sighted banking. If a farmer cannot be sure that small sums of money he may have coming in will be left available to him if placed in the bank he will naturally take steps to circumvent the bank by not depositing at all. He will endeavor to keep away from the banker altogether until he feels he can reduce his larger indebtedness. This is bad business both for the farmer and the banker. The farmer loses the convenience of the bank for current business, the banker not only arouses antagonism but fails to keep in touch in the natural way with his client, with whom it is highly to his interest to keep in contact in view of the larger sums owing. It should be possible to make arrange-

ments in cases of this sort and eliminate this source of grievance.

IX. WITHDRAWALS FROM OR REFUSALS TO ENTER A DISTRICT.

All the evidence goes to show that the banks have been exceptionally keen to establish branches wherever there seemed a fair opportunity of eventually making them pay. In fact local heart-burnings caused by the removal of branches have been largely due to the over-exploitation of portions of the provinces that are as yet sparsely settled. In the same way the refusal to enter a village or hamlet has usually been due to the fact that rival institutions have established themselves at adjacent points. There is not a district sufficiently large to support both. In instances of this kind there is nothing to be done; it can't be helped. Moreover, it must be observed that the banks necessarily have a discretion as to where they may determine to locate their branches. As long as banks are private institutions this discretion cannot be controlled. They cannot be forced to establish branches at points where they deem it will be unprofitable for them to do so. When as between two small rival villages one is chosen and the other feels that it has been treated badly because it has been passed over, there really is no remedy. No system of banking, conducted on business-like lines, provincial, federal or otherwise, could obviate cases of this sort occurring from time to time. I do not think that there are very many points that could profitably support a branch of a chartered bank that are not supplied with them. Further, I believe that there are numbers of places where banks have established themselves before the business of the district would warrant it, purely in the expectation that as settlement continues and fills in the district, their foresight in forestalling their competitors will have been justified.

It must be recognized that the expense of establishing a branch of a chartered bank is considerable, and that with the present lack of density of population in the country branches of banks must serve fairly large areas. The five superintendents of Alberta branches who have headquarters at Calgary give it as their general opinion, that the following profit and loss account shows, as approximately as can be determined, the minimum loans and deposits necessary to operate a country branch on a paying basis:

Profit and Loss Account - Country Branch.

Having Average Saving Deposits of \$50,000 and Average
Free Balance of \$50,000 in Current Account.

Salaries			
Manager	\$2,000	Interest derived from loans	
Teller-Act.	1,200	of \$140,000 at 8%	\$11,200
Ledgerkeeper	800		
Junior	500	4,700 Inland and Foreign Exchange	
Stationery		600 and Discount	700
Rent & Insurance		900	
Taxes (Provincial &			
Municipal)		275	
Fuel & Light		225	
Postage & Express		300	
Telegraph & Telephone		100	
Sundries			
Advertising, travelling			
and relieving expenses,			
subscriptions, law costs,			
etc.		300	
Executive supervision		500	
Annual charge for interest			
on capital outlay for			
fixtures, equipment,			
depreciation, installation			
and freight		400	

Paid to Head Office		
5% on \$40,000, being		
amount by which loans exceeded		
the deposits of the branch	2000	
Interest paid on savings		
deposits at 3%	1500	
Profit	100	
	\$ 11,900	\$11,900

(It should be observed that in submitting these figures as an illustration covering operating costs, no provision whatever for losses enters into the computation.)

There are two reasons why the chartered banks withdraw from certain districts. In the first place the estimate of the business possible to be developed at a given point may prove to have been too sanguine so that any prospect of the branch finally paying its way has disappeared. Secondly, other banks may have established branches at adjacent points which may have so cut into the territory of the branch that it ceases to yield adequate returns. Under either of these circumstances it is difficult to see any other alternative than to withdraw. The banks are not eleemosynary institutions and cannot be expected to conduct the business of a branch permanently at a loss.

In connection with withdrawals one difficulty presents itself which may be illustrated by the withdrawal of the Bank of Commerce from Rochford. In this instance many complaints were made because the Bank of Commerce had transferred a number of accounts of the closed branch to a branch of the Imperial Bank at Sangudo instead of to a branch of the Bank of Montreal at Mayerthorpe. It was claimed that Mayerthorpe was a much more convenient banking centre for a number of farmers than Sangudo. The Bank of Commerce replied that it was unable to go to another chartered bank and require it to accept the accounts. In the case of this specific complaint it submitted that "on the 31st of March, 1922 the loans at the Rochford branch of the Canadian Bank of Commerce were \$68,000; on the first of August, 1922, the Imperial Bank of Canada had taken over - made arrangements with the customers, and taken over - accounts amounting to \$8,600; the Bank of Montreal at Mayerthorpe had taken over accounts amounting to \$19,600; and the Canadian Bank of Commerce was still interested to the extent of \$33,000." (Edmonton, p. 98).

When a bank withdraws its branch from a district normally there should be no difficulty in the accounts being placed at the most convenient neighboring branch. The rub comes when the withdrawal is made during a period of depression and a large number of customers of the bank are behind in their settlements. Under these circumstances no other bank is anxious to accept their accounts and naturally the withdrawing bank is interested only in closing them out. This is well illustrated by the figures submitted for Rochford where over half the borrowers of the Bank of Commerce are apparently unable to make arrangements elsewhere.

X. CHARGING EXCHANGE BETWEEN LOCAL POINTS.

Charging exchange between adjacent local points seems to be productive of considerable irritation. I do not think that the legal rate as set forth in section 93 and 94 of The Bank Act has to any degree been departed from. I do not consider that clients of the banks have any legitimate grievance in this respect. The charge is essentially a service charge. Moreover, in many instances par privileges are granted. When there are two branches of different chartered banks within a municipal district, if the account is valuable enough it should be possible to make satisfactory arrangements with each by splitting the account or otherwise whereby the rate payers might secure par privileges. However, that is clearly a privilege.

V. THE AMENDMENTS OF 1915 AND 1916.

In 1915 section 88 of The Bank Act was amended to permit loans to be made for the purchase of seed grain upon the security of any crop to be grown from such seed grain. A further amendment in 1916 permitted the banks to lend upon the security of live stock. I have made careful inquiry as to the effect of these two amendments and I find there is a general recognition of their value. They have been of use in instances where the moral risk was satisfactory but where the financial conditions of the farmer would not permit a loan. These amendments make it possible for the bank to come to such/the assistance of/a farmer. The evidence is that the volume of loans made under these amendments is not large but is of considerable importance because made under just such conditions. In accordance with the resolution of the United Farmers of Alberta in 1917, I think the section might be further amended to decrease the legal costs to the farmer of credit obtained in this way.

VI. - LOANING ON HAY IN STACK.

The desirability of a further amendment to section 88 to permit the banks to loan upon the security of hay cut and in stack was urged at Lethbridge, (Lethbridge, p. 44). Such an amendment would be of considerable value to parts of southern Alberta. As the irrigated area increases the hay crop is bound to become of more importance in that part of the province. At the present time the banks may lend money to a farmer upon the security of his threshed grain. This provision might be extended to include hay cut and in stack. I understand it is recognized by agricultural experts that hay will keep better in stacks than if pressed and warehoused. Under these circumstances there seems to be no reason why this amendment should not be made.

VII. - THE RURAL CREDIT SYSTEM.

The Alberta Co-operative Credit Act was passed by the Alberta legislature in 1917. The first society was organized on February 23, 1918. Since that date nineteen local societies have been organized. The Act provides under certain conditions, for a government guarantee, when approved, of the credit the local society seeks from the bank. The advances made by the various banks to the societies was on June 30, 1922, totalled at \$354,089.54. The rate at which these loans were made was seven and a half per cent.

The object of the act is to strengthen the individual credit of the farmer and enable him to obtain a loan from the bank at a cheaper rate of interest than he would be able to obtain if he were not a member of the society. In this respect the advantages derived from membership have been a difference in the rate of interest of from one-half to one and a half per cent.

The rather slow growth of these societies in this province seems to be due to a variety of causes. In most countries where they have developed there has usually been a period of five or six years of slow growth. The idea is new and requires time to acclimate itself. Apart from this there are other reasons which make it doubtful if there will be a very extensive development of credit societies in Alberta. Briefly these reasons are as follows: (1) It is more difficult to organize a society under conditions of agriculture where extensive rather than intensive cultivation is pursued. The area that is required to be included to form a suitable unit is very much larger. Mutual understanding and sympathy is harder to achieve. (2) There is not the same solidarity, based on religion, race and traditions, that exists in older countries. The west is still in the making, practically every district representing a mixture of peoples who have been drawn thither by the lure of cheap land. (3) The western farmer is of the pioneering stock and

as such tends to be individualistic in his nature. He wishes to "manage his own affairs" and dislikes the close supervision of his operations which a rural credit society necessarily entails, (Red Deer, p. 10). (4) The advantages in this country which a rural credit society confers on the average farmer are not great enough to lead him to desire to forego making his own credit arrangements with the bank. The explanation of this is that conditions are by no means as bad here as they were in Europe when rural credit schemes were initiated there. The Canadian banks, unlike the European institutions, have from the first endeavored to cater to the needs of the farmer in the west. Secondly, western Canada does not abound in private capitalists from whom the credit societies can borrow. They seek their funds at the bank, naturally the spread between the rates at which the individual farmer can borrow and the rate at which the credit society secures its funds is not very large.

In view of all these considerations I do not think the credit societies will grow rapidly in Alberta. On the other hand I regard them as a valuable auxiliary to the credit facilities of the province. In districts where the individual farmer's credit is weak they undoubtedly strengthen it. Moreover, the personal supervision of government inspectors is of great value just in these communities in assisting the farmer to gradually build up and secure his economic position by preventing excessive and unwise borrowing.

VIII. - THE NOTE ISSUE PRIVILEGE.

At almost every point where sittings were held there have been one or two complainants who have objected to the privilege, conferred on the banks by section 61, of issuing notes. This is not a new complaint by any means and was raised before the Committee on Banking and Commerce at the last decennial revision of The Bank Act in 1913. Indeed it was thoroughly discussed as far back as 1866, and from time to time the complaint has re-appeared. As the basis of these complaints there is a real confusion as to the nature of a bank note. It is commonly believed that the right to issue bank notes is equivalent to granting to the bank the legal right of doubling its capital.

The essence of banking is the exchange of credits. As an expert the banker examines the less well-known and less certain security that the farmer offers to him in exchange for credit. If satisfactory he accepts it and gives in return the credit of the bank, which is well-known, generally acceptable as a means of payment, and safeguarded by financial legislation covering almost a century of our history. Between the two, the banker and his client, there is a reciprocal relationship. When a farmer signs a note in favor of a bank and receives a credit at the bank he is at once its debtor and creditor. He owes the bank on his note. The bank owes him to the degree that it has extended credit to him for the note.

"The notes of a bank are a liability distinguishable in form, but not in substance, from its deposits. The creditor of the bank of issue has his choice between taking the evidence of his right in the form of a note (i.e. a bank note) and taking it in the form of an entry in a book (i.e. a deposit). For his use one form may be preferable to the other if he desires to make payments in small sums, as for wages, he may prefer to take notes; if he is to make large payments, or expects a little delay in the use of his funds, he is quite certain to prefer being credited with a deposit. But whatever his choice, the liability of the bank to make payment in money on demand is the same, and it is under the same necessity of providing itself with a reserve, sufficient to meet any demand which experience shows to be probable.....

It makes no difference whether the demand is from depositors or noteholders; the funds available to meet subsequent demands are reduced to the same degree in either case, and the same precautionary measures for replenishment will have to be taken..... The bank itself finds the same advantage in the one as in the other. Its profit is made from the securities which it holds, and whatever profit it makes beyond the mere interest on the investment of its capital results from holding securities purchased by means of its credit and of the funds deposited with it; but the rate of profit is in no way dependent upon the process by which the credit is transferred from one creditor to another. The bank, in short, is interested simply in providing that form of credit which is most convenient for the use of the community on which it depends, for it is by that means that it can do the greatest amount of business and hold the greatest amount of securities. The deposit, transferred by cheque, is more convenient for large transactions than the note, being more expeditious and safer." ---Dunbar; The Theory and History of Banking, 3rd edition pp. 59 ff.

In cities where large transactions occur the fullest development of the deposit and the cheque system is found. At country points, on the other hand, where dealings are on a smaller scale there is a greater need for notes. This is the explanation of the permission which is granted to the banks to expand the note issue during the crop moving season. It is intended to meet the needs for notes by clients of the banks at country branches, particularly in the west.

The right to issue notes is undoubtedly a valuable privilege to the chartered banks, because it enables them to expand their business and open branches at many points where otherwise it would be impossible to do so. They can use their own notes as till money. This cuts down the cost of operating the branch. The ability to open these branches means the extension of banking facilities. The practical effect of its abrogation would be the withdrawal of a number of branches from various points in this province.

It must be observed that the provision and contract of legal tender currency is universally admitted to be a state function. Bank notes, however, are not legal tender.*

*At present (October 25, 1922), the provisions of The Finance Act authorizing the chartered banks to make payments in bank notes continues in force.

IX. - A PROVINCIAL BANK OF ISSUE.

The views of the United Farmers of Alberta are to be found in the series of resolutions that have been passed at their annual conventions beginning in 1915. They are as follows:

Agricultural Credit: (1915 Convention): "Resolved, that the Government be asked to provide legislation whereby the farmer may secure cheaper money and a better line of credit which we believe can be secured by means of Co-operative Credit Associations".

Loans on Live Stock: (1916 Convention): "Whereas many farmers have large quantities of feed stuffs available but are not able to make profitable use of these because they cannot borrow money from the banks to buy horses, cows, cattle, and sheep, and hogs, even if they are prepared to give security to the banks, and

"Whereas the Bank Act does not permit the Banks to lend money to small farmers for such purposes and to take security over the live stock;

"Resolved: That we, the United Farmers of Alberta in convention assembled, request the Dominion Government at the present session of Parliament, to amend The Bank Act, so that small farmers may have the privilege of borrowing at long dates from the banks on the security of live stock".

Note:-- This is to apply only to live stock held unencumbered or purchased after the amendment is passed, because it is not suggested that securities already given over live stock be interfered with.

Agricultural Banks: (1916 Convention): Resolved: That this convention do urge upon the government the necessity of establishing an agricultural bank whereby the farmers can obtain money at a more reasonable rate of interest than at present".

Bank Act: (1917 Convention): Whereas, the 1916 convention of the U.F.A. asked the government to so amend The Bank Act as to allow the banks to take security on purchase of live stock, so that farmers might make such purchases, and so increase their live stock holdings; and

"Whereas, the Dominion Government enacted accordingly, but it is found in practice that the form under which security is given is a chattel mortgage; and

"Whereas, the security must be registered under that name, which seems to indicate that the borrowing farmer is in difficulties, instead of which he is actually improving his circumstances;

"Therefore, be it resolved: That this convention respectfully requests the Dominion Government to further amend the Act so that a simple form of security may be provided under such a name as "Live Stock Lien", which may be registered at a fee of about twenty-five cents."

Proposed Provincial Bank: (1919 Convention): "Whereas the present system of chartered banks is not able to meet satisfactorily the credit requirements of the agricultural industry:

"Therefore, be it resolved, that the convention recommends in the interests of agricultural development, that the present banking system be supplemented by a system of banks created by the Provincial Government, which Government shall have plenary power to create, regulate and control with minimum requirements of \$10,000.00 paid up capital, and with power to take deposits:

"And further, we recommend that The Bank Act of Canada be amended to give the Provincial Legislature full power to issue charters for banks as are here described."

Rural Credits: (1920 Convention): "Whereas, one great need of the farming community is a good credit system, and

"Whereas, the present act was endorsed by the U.F.A. and

"Whereas, some fifty-four associations are organized and giving good service in Manitoba, and

"Whereas, the Provincial Government is willing to guarantee their share of all loans made to rural credit societies, and the only hindrance to the operation of the Act in Alberta is the lack of co-operation on the part of the municipalities;

"Therefore, be it resolved, that this local endorses the act and further recommend that the rural municipalities give it the guarantees required by the banks to get this act into working condition."

Banking Reform: (1921 Convention): "Whereas, the banking system is a mystery to most of the rank and file of the people, and "Whereas, there exists a grave suspicion that the financial institutions are taking a very unjust toll of real values from the people who produce real wealth, in return for fictitious values and service, and

"Whereas, it is our duty to prevent exploitation and spread education in these matters,

"Therefore, be it resolved, that this convention go on record as in favour of the nationalization of our banking and credit system."

"Provincial Bank: (1922 convention): "Resolved that the Alberta Government cause to be secured a bank charter, in accordance with the federal Bank Act:

"1. That the head office of such bank be in Alberta.

"2. That the government purchase and retain capital stock in the said bank to the amount of not less than 55 per cent., or more than 95 per cent.

"3. That not less than 5 per cent. and not more than 45 per cent., be sold to residents in a prescribed area in which a proposed branch is to be located.

"4. That the government appoint a commission composed of five members who will exercise all the rights and privileges, on behalf of the government, granted to the shareholders under the federal Bank Act.

"5. That the commission shall have the power to exercise all the privileges granted or imposed by the federal Bank Act subject to the direction of the Alberta Legislature.

"6. That such bank when established shall do a general banking business, and proceed to take full advantage of the right to issue paper currency under the federal Bank Act.

Government Loan Department: (1922 Convention): "Resolved that the United Farmers of Alberta request their elected representatives at Ottawa to present a bill to the House of Commons for enactment having for its object the establishment of a loan department along the following lines:

"1. That the Treasury Board shall issue on the terms and for the purpose herein mentioned, full legal tender notes from time to time to meet the business requirements of the country.

"2. That all such notes shall be legal tender for all and payable for all debts, public and private, and shall be a first lien upon all the assets and services of the people of the Dominion for their redemption, and all Dominion currency now issued shall be made full legal tender;

"3. That this money be loaned direct to the people at cost, on the following securities: Federal bonds, Provincial bonds, urban and municipal bonds, on improved, inhabited and used farms, the amount so loaned not to exceed a fixed margin of safety. The range of securities upon which loans are to be made to be gradually extended from time to time by statutory amendment as experience and development of the system shall warrant.

"4. That upon the payment to the department of any loan, the amount of money so received shall be held in the department and either cancelled or used in making new loans to meet the requirements of the country; Preference in these loans to be given to those parts where interest rates are the highest.

"5. That the earnings from the loan department from all sources after paying the conservative and legitimate expenses of the department and its branches, if such exist, shall be applied to the payment of the general expenses of the Government, thus reducing taxation upon the people.

It is easy enough for the critic to see in these resolutions evidence of conflicting policies and ground for convicting the United Farmers of inconsistency of purpose. Really, I think the fair deduction to be made is that they represent the views of various groups within the convention who from time to time have managed to get their resolution passed. The patent fact must not be beclouded that as a whole they do reveal dissatisfaction with the western credit structure extending over a considerable period of time. It is scarcely necessary to discuss all these resolutions.

A resolution in 1919 calls for the establishment of a system of provincial banks on the analogy, it is to be presumed, of the state banks of the American Union. This experiment was tried in the old province of Canada when the "Free Banking Act of 1850" copied the banking act of the state of New York. A few banks were

organized under the act but the scheme proved a failure. The law was repealed in 1866. I doubt if a scheme could be devised which would enjoy greater success at the present time when the chartered banks have enormously increased their power, control and effectiveness.

One of the resolutions passed in 1922 proposed the establishment of a loan department by the federal government and would unite this project with an issue of fiat money. The proposed fiat money would bear a close resemblance to the assignats issued by the National Assembly in France in 1789. The assignats were non-interest-bearing legal-tender notes for the security of which the confiscated lands of the clergy were pledged. Despite this security the issue of assignats followed the usual course of such experiments. Issue succeeded issue until the assignats depreciated in value and became absolutely worthless. The trend of events in continental Europe to-day show that it is still quite possible for a nation to wreck its financial and commercial organization through embarking upon schemes of fiat money.

There is also the demand in 1922 for a provincial bank, Although there would be very grave legal difficulties to the establishment of such an institution, difficulties which in fact would probably prove insuperable. I shall assume these to have been overcome. I wish to examine the project purely as an economic venture. I can see little to commend it while I recognize the driving force behind the demand is a desire to achieve better credit conditions for the farmers of the province. There are only two sources to which a provincial bank could look if it desired to give permanently a substantially cheaper and better service than do the chartered banks and still pay its way. It might rely upon cutting profits or upon lowering the costs of operations. Let us consider these possibilities in turn:

It is commonly believed that the banks are making vast profits for their shareholders. This view obtains credence because there is a failure to recognize that the rest or reserve fund is just as much a part of the bank's capital as though it were formally denominated capital. The following statement was given to the Grain Grower's Guide in January 1920 by the Superintendent of Central Western Branches of the Bank of Commerce, and I think it may be assumed to be correct:

"In 1915 the earnings of the twenty principal banks ranged from 10 to 21 per cent. on "capital" and the total earnings of these banks amounted to 14 per cent. on their combined capital. Their combined capital was \$108,000,000 but their reserve funds amounted to \$108,660,000, or as much as their capital. Moreover, of these reserve funds 58 per cent. had been paid in by the shareholders in cash, while the remaining 42 per cent. represented small annual reservations from earnings over periods of from 40 to 100 years.

"To ascertain the true showing as to earnings in the year quoted the profits must be calculated on the combined capital and reserve fund, as follows:

Capital, paid up in cash.....	\$108,000,000
Reserve, paid up in cash.....	63,022,800
Reserve from earnings 40-100 years.....	45,637,200
Total Shareholders' funds.....	<u>\$216,660,000</u>

"The aggregate profits for the year were \$15,389,860 -- including dividends and additions to reserve funds -- equivalent to only a fraction more than 7 per cent. on the funds belonging to shareholders." (1)

(1) Reprint from the Grain Growers' Guide, p. 13.

The resolution of the United Farmers of Alberta proposes that the Government of the province find the funds for "not less than 55% or more than 95 per cent." of the capital. This money would have to be borrowed for certainly the difficult state of provincial finance at the present time would not enable the province to supply the amount necessary out of surpluses. Present rates for government borrowing are not far from 6 per cent., so that there would be a very narrow margin for gain through securing the funds in this manner over the rate of dividend that would naturally have to be considered to attract private investors. It is suggested that "not less than 5 per cent. and not more than 45 per cent!" might be privately subscribed. To attract sufficient subscriptions for a considerable portion of the capital of a bank large enough to be a real force in the province there would need to be a reasonable prospect of at least 7 per cent. dividends, the effective rate that shareholders of the chartered banks secure. It is extremely likely that the bulk of the capital for the proposed bank would have to be furnished by the government. A certain amount would be subscribed without much regard to the dividend through enthusiasm for the project but to obtain any really good-sized sum interest on the investment would have to be considered. People saving their money for purposes of investment would naturally consider, before subscribing, competing forms of investment. Still, if we assume that the capital be obtained, either borrowed by the government or privately subscribed, the rate of payment that would have to be made for the use of this capital would afford a very small saving over what shareholders of the chartered banks receive for the use of their funds. Moreover, it is to be pointed out that the returns from bank stock are not so large as to make it easy to secure subscriptions. The failure of the promoters of the Great West bank recently to find sufficient capital to launch that institution is significant.

The other possibility of a cheaper service depends on the ability of the government to conduct banking operations at a lower rate of cost than do the chartered banks. I can see no reason to believe that this would be the case. The general experience of government operated ventures is that in many instances the cost is more rather than less. There is nothing in the particular circumstances of the proposed provincial bank to lead to the conclusion that on this occasion the cost would be less.

In brief, the cost of the capital that such a bank would require would not be appreciably lower than the rate of profit paid on private capital invested in bank stock. The cost of operating a provincial bank would be probably as great, and might be greater, than the cost of operating one of the chartered banks. Neither avenue discloses a resource for lessening to any marked degree the cost of credit to the farmer.

In addition to these two fundamental objections to a provincial bank it must be remembered that while the province of Alberta might possibly secure the right to operate a bank it could not break up the comity of provinces established by Confederation and exclude the chartered banks from doing business within its borders. A provincial bank would encounter the full force of the competition of the chartered banks. These banks would probably hold the larger part of their good business. In the cities they would continue strongly entrenched. I have asked and obtained data from the banks as to the source of their savings deposits.

"The five superintendents of banks at Calgary, after obtaining certain statistics from their branches and after consultation and comparison of the figures obtained by each, have arrived at the following figures showing the approximate percentages of savings bank deposits carried by farmers in the province of Alberta, viz:

Approximate percentage of savings bank deposits of farmers to the total savings bank deposits at purely rural branches of the bank in Alberta 52%

Approximate percentage of savings bank deposits of farmers to the total savings bank deposits at all branches of the banks in Alberta 24%

The above figures may be subject to a slight variation either way, but they are regarded by the five superintendents at Calgary as constituting a fair representation of the percentage of savings bank deposits obtained from farmers in Alberta." (1)

The average savings bank deposits of all the branches of all the banks doing business in the province of Alberta for the year 1921 was \$61,317,068. The average loans and discounts of all the branches of all the banks doing business in Alberta for the year 1921 was \$112,748,020. - Secretary of the Canadian Bankers' Association.

The chartered banks would probably retain two-thirds at least of these deposits and the bulk of their desirable mercantile business. If this happened the result would be that for a considerable time, at least, the provincial bank would attract only the less valuable business and secure only slight deposits. Not only would a provincial bank fail to secure really large deposits in the province but it would not be able to draw upon the deposits made in other parts of Canada to finance its loans here. I believe the ability of the chartered banks to carry the farmers of this province during the depression to the extent they have been carried, has rested largely upon savings deposits made elsewhere.

Moreover, in Canada the trend is towards larger banks. This is also the trend in Great Britain. Severe competition has eliminated quite a number of smaller institutions. In the east also, the small private bank has almost disappeared. The large banks now have their branches at all important points in the Dominion as well as overseas and the United States. A provincial bank would be a local bank. Hence in this respect it would face difficulties in making arrangements to take care of its commitments at extra-provincial points.

Finally there would always be the danger of politics creeping in, both with respect to its administrative personnel and with respect to the accommodation which it would offer to clients. Writing of the failure of the Bank of Upper Canada in 1866, R. M. Breckenridge in his History of Banking in Canada says:

"Lawyers, legislators, the gentry, and professions, civil servants and politicians properly connected and properly introduced, were suffered participation in the bank's loan favors on the strength of mere accommodation paper or on the ultimate or none too remote security of inflated real estate." p. 80.

Apart from all legal difficulties in the way I cannot see in the establishment of a provincial bank a sure and practicable solution at the present time to the credit difficulties that beset the farmers of Alberta.

There is undoubtedly a strong current of dissatisfaction with the chartered banks throughout the province of Alberta. This dissatisfaction arises partly through the irritation caused by the

grievances which have been previously discussed and has been partly developed by irresponsible agitation. In addition there is a distrust of eastern financial methods. Previously vague and uninformed, the distrust has been greatly aggravated by the disclosures due to the closing of the Merchants' Bank. Moreover, it is believed that the chartered banks exercise a practical monopoly. The procedure as revealed by the evidence with respect to the endeavor to enforce discounting in western Canada smacks of monopoly. The actual condition seems to be that there is the very keenest kind of competition between the banks for business. Such competition, however, is not incompatible with quasi-monopolistic agreements as to discounting, rates of interest, or other matters.

The chartered banks of Canada by absorption and elimination have been reduced to such a small number that agreements of this nature become easily practicable either through the Bankers' Association or more informally. I submit that there is a need for the fullest investigation along these lines before the Committee on Banking and Commerce of the House of Commons or otherwise. Equally there is a need for the most rigid scrutiny into conditions which made possible the Merchants' Bank debacle. Amendments to The Bank Act should safeguard the public interest in both these directions if confidence is to be restored in the soundness and integrity of our banking institutions.

X. - LONG TERM CREDITS.

The problem of long term credits came from time to time before the commission but was a distinctly subsidiary phase of the investigation. Farmers were pre-occupied with the problem of bank credit and did not come prepared, with a few exceptions, to discuss mortgage loans. I gather that while there are undoubtedly certain aspects of the mortgage loan situation that might be much improved yet there is no such general feeling of dissatisfaction as exists with the conditions of short term credit. I understand this to be the experience also of Mr. Fream, commissioner for the drought areas, with respect to the mortgage companies.

It was pressed at a number of points that what the farmers needed was a long term federal loan. With all its financial difficulties at the present time I do not think the federal government could be interested in such a scheme just now. I would observe, however, that there are few governments in the world to-day who deem the industry of agriculture of such negligible importance as not to merit the most carefully concerted means to place its long term credit resources on a satisfactory basis. In a country so largely devoted to agriculture as Canada it should be one of the first duties of statesmanship.

Under present conditions as long as the province of Alberta must import vast sums of money to bring its great heritage of farm lands under the plough the path of wisdom must be to make mortgage loans in this province as safe as possible to the lender. The expenses of any needless costs and encumbrances in the legal procedure necessarily falls in the last resort upon the borrower. The results of uncertainty of recovery are lessened volumes of capital available, diminished competition for loans and a higher rate of interest. This is not to hold that there should not be fair and equitable protection to the borrower, but there is a grave danger of multiplying safeguards to such a degree that the unscrupulous borrower may escape his just obligations. Such a course of legislation inevitably reacts upon and penalizes the honest borrower in the way of increased costs and lessened facilities to obtain funds. Yet there is no doubt that the great majority of demands for mortgage loans come from reliable, honest farmers who are ready to employ these funds in fruitful uses. These men pay for an over-anxious paternalism which really defeats its purpose.

An estimate of the distribution of mortgage investments in Canada in 1920 for loan companies registered in Ontario alone shows an aggregate for the province of Alberta of \$11,937,907 -(i) & (ii). The mortgage companies on their part if they wish to continue to do business under satisfactory conditions should study the precise needs of this constituency. The conditions of agricultural production vary from province to province. There is a tendency in large mortgage lending institutions to stick to stereotyped forms of mortgage and cease to be progressive. For instance, there is a consensus of opinion among practical farmers that the amortization form of mortgage is best suited to conditions here. Apparently very little effort is being made to supply or commend this type of loan. A farmer can obtain one from certain companies but the companies prefer the older forms that office routine has made familiar. Yet the amortization form of mortgage loan has become quite well-known elsewhere and is largely for loans placed on agricultural land. Another phase of this problem is the difficulty a farmer encounters if an exceptionally successful season would enable him to clear his land of indebtedness. In one instance in the south evidence showed (Lethbridge, p. 35-36), that a farmer was refused this privilege. He invested in improvements. His bumper crop was followed by a succession of failures. He is now in financial difficulties. It should be possible to arrange fair terms under which a mortgage could be lifted when the opportunity occurs for the farmer to do so.

(i) V. Evan Groy, Registrar of Loan Corporations, Ontario, Mortgage Lending Institutions in Canada, p. 6.

(ii) The total of land mortgages for Alberta is not available as the tabulations for investments by mortgage companies, insurance companies, etc., do not distinguish as between sums invested in land mortgages, provincial bonds, and other securities.

XI. - A GAP IN THE CREDIT STRUCTURE.

At the present time there seems to be a gap in the credit structure of the province. It exists between the credit facilities offered by the chartered banks and the long term credit provided by the mortgage loan companies. This lack does not affect farmers securely established but there are a great number of settlers who need moderate loans for the purpose of breaking new land or making other improvements of a similar sort. In the case of breaking new land farmers feel they could count on repaying the loan from the proceeds of the new crops within at least three years. The period is too short for a mortgage loan and too long for a bank loan. The expense incidental to placing a mortgage loan makes the cost prohibitive. A similar objection appears against a bank loan with interest compounded quarterly. Further, with quarterly renewals, in the event of a short crop following immediately upon the breaking operations the farmer may find himself in difficulties with the bank and fears the loss of his "independence". The farmer believes that a period of three or four years would allow for the contingency of a short crop and yet make it practically certain in most districts that he could retire the loan when due. The need of credit facilities for breaking land and other capital improvements is manifest. There are many farmers in the province who are just getting their land under cultivation and require loans of two or three years duration to adequately develop and equip their properties. Neither a mortgage loan nor a bank credit quite fills the bill.

Even greater difficulties inhere in using bank loans for a venture in live stock production. A loan for a purpose of this sort should run for two or three years. That period at least is required to mature stock for the market. However, the speculative element in such a venture leads me to believe that it is unwise

for the average farmer to attempt it unless he has funds in hand to provide a deep margin. Otherwise it becomes particularly hazardous especially when quarterly reviews of the basis of his credit may embarrass him at a critical time.

XII. - POWER OF THE BRANCH MANAGER.

There is a general idea that the managers of the country branches of the chartered banks are very closely controlled, partly by the supervising offices established in the west but chiefly by the head offices in the east. The evidence goes to show that country branch managers, according to their experience, have a discretion to make loans up to from one thousand dollars for new managers to five thousand dollars for experienced men. Beyond those amounts they must submit the application to the superintendent of branches concerned. In such instances these applications, bearing the country branch manager's recommendation, must be examined and approved by one or more officials in the superintendent's office, before the country branch manager is clothed with authority to make the loan. In turn the superintendent has a discretionary limit of at least twenty-five thousand dollars, up to that he may authorize a loan; beyond that figure the application, recommended by the superintendent, will go commonly to the head office for approval. point

On the other hand, the local manager has an uncontrolled discretion in the rejection of applications for loans. No application to the superintendent would be considered unless it were recommended by the country branch manager submitting it. The country branch manager is the court of first and last resort in the case of rejection. The bulk of applications for loans made by farmers are for amounts under one thousand dollars. It follows from these facts that the country branch manager is really a person of very great importance in his district. On his judgment will depend to a considerable degree its development. I have been in certain districts where common talk has said that such or such a bank manager, located there for a term of years, has "made the district."

The common notion that every time a country branch manager refuses a loan to a farmer he is acting on the express authority of instructions from the head office, or because of concerted design in eastern Canada, is so wide of the facts that it is difficult to account for its prevalence. The chief reason that it persists to the degree that it does appears to be that not infrequently branch managers wishing to refuse a loan instead of disclosing to the farmer the true reason and taking responsibility for an action bound to be displeasing in any event to the applicant, explain their action by a reference to their superiors. Sometimes the idea has no more basis than that a branch manager delays passing on the application for a few days until he has had time to consider it.

The really serious aspect is that at a considerable number of points in the province there is necessarily a branch of only one bank. The districts are large, running up to an area of eighteen hundred square miles. This gives the branch a virtual monopoly within quite a district. The local branch manager becomes the sole dispenser of short term monetary credit therein. Unlike older settled portions of the Dominion there is very little local money - available for loan upon which in an emergency a borrower can rely. If the local branch manager refuses the applicant he is "up against it". He is commonly without resource. A complaint lodged with the superintendent's office is possible but there is the fear that such a course may not be ineffectual but may bring eventually upon the individual condign "punishment" by the local manager.

As a result of this unique position that the country branch manager occupies sometimes undue importance is attached to his views on farming. It is felt that he is in a position to enforce them. The farmer fears to cross the bank manager in this respect lest he get his line of credit cut. On the other hand he will accept credit to engage in farming operations, that, while, well-conceived, may turn out to prove unprofitable. It is just there that bitterness has developed with the recent attempts to encourage stock farming.

Through the actual handling of the credit itself the country branch manager is able to exert considerable authority. Thus in certain instances in the south where the farmer was behind in his payments to the bank there were complaints that farmers were forced to put on hail insurance when the crop was not of sufficient value to warrant such a course. The result was that the farmer found himself loaded with just that much more debt.

"Q. But you feel the complaint against the bankers that they wish you to take out insurance?

A. Well, personally, I feel that my judgment is better than theirs. I will tell you why, last year the bank manager wanted me to take it out and I told him my crop wasn't worth it and I came very nearly having words over that. We let it go and I headed my grain with my own help as best I could -- I got a bushel and a half per acre out of it." (Lethbridge, p. 35)

"A..... They offered to give us a little money to go through the harvest providing we would put on five thousand dollars hail insurance and I didn't want to do it for the sake of getting credit to go through the harvest. They say they won't give me the money until I take out that insurance. They say they will put on the insurance anyway, so I will be out the four hundred dollars whether I take out any credit or not so we are in a quarrel." (Lethbridge, p. 36.)

"A Now my reason for not taking out insurance is simply this, that there has not been loss from hail in that locality and we feel that the premium for hail insurance is altogether too high, that a man can carry his own insurance much cheaper and furthermore there is still a chance of losing the crop several times outside of hail", (Lethbridge, p. 32).

Another instance may be cited; the manner in which a crop lien security may be employed:

(Copy of Crop Lien Security)

"W. B. 102 Supt. Wpg.

	Due.....	
\$.....	19.....
.....	after date.....
promise to		
pay to the Bank of Montreal or order at the Bank of Montreal		
here, the sum of.....		
dollars, with in-		
terest at the rate of.....		
per cent. per annum as well		
after as before maturity. Value received.		
Sec....Twp....Rge....	
Sec....Twp....Rge....	

The undersigned promise and agree to give the above-named Bank security for the above note and any renewal there-

of under section 88 of The Bank Act covering all the threshed grain grown upon the farm situate..... and all the stock situate..... which are now or may be from time to time owned by the undersigned, or by way of Warehouse Receipts for Bills of Lading for the same or part thereof; and the Manager of the said Bank or the Acting Manager for the time being is hereby appointed the attorney of the undersigned, to give from time to time to the Bank the security above mentioned and to sign the same on behalf of the undersigned.

For the borrower to
sign here: also"

I am advised by the Bank of Montreal that this form "or similar form, is used throughout the west by various banks where money is provided for farming operations against the expectations of a crop." This autumn under the power of this form the manager of the Bank of Montreal at Strome notified one of the elevators there giving a list of the names of farmers, said to number thirty or forty, and asked that cheques be made payable to the bank and not to the parties. The office of the district superintendent at Calgary was written to and I was informed that "our representative at Strome had misunderstood our general instructions in respect to the employment of this crop lien security. We have instructed the manager to withdraw notification to elevator companies except in such cases where it is deemed necessary to preserve our security in order to eliminate evident risk."

Apart from other considerations these instances exhibit the power of the country branch manager. It follows that the country branch manager requires a wide knowledge of his district, a certain knowledge of agriculture, as well as a considerable degree of training. Although commonly given an automobile allowance for "travelling his district" the possibility of a branch manager to obtain adequately that knowledge, in view of the wide extent he must cover, as well as to form a just appreciation of the moral risk, when he is continually being moved from point to point, is a phase of the problem I have already discussed.

The means of estimating a branch manager's fitness for the position he occupies rests largely upon the report he is able to present his inspector and auditor. Bad or unskilful service means ultimately losses to the bank or loss of business. Between his own district and the next there is a fringe of competitive area to serve which there is keen competition. These conditions exist where there is more than one branch at a given point. There is keen competition. But even where there are branches of two or more banks competition may partially break down. When an unfavorable season has put farmers behind in their payments to a branch until they are able to clear up their indebtedness with the branch with which they are dealing they are usually and naturally unable to obtain credit elsewhere. The local branch manager is in a position to increase the rate of interest on renewals or in other ways exercise considerable authority. Unless he knows his district well, through his failure to be properly seized of the situation, he may retard his client's economic recovery. In the long run this does not prove good business for the bank.

I have already observed that I think there has been a loss of banking efficiency among branch bankers in the west. This I attribute, not to the quality of the men engaged therein, but partly to inexperience and partly to the policy of excessive changing of managers. It must be recognized as well that general conditions have been exceptionally difficult. The worries of the period of depression have not been

all borne by the farmers but in many cases have been deeply and sympathetically shared in by local managers, and in some instances by their superintendents.

XIII. - CREDIT COMMISSIONER.

As it is through its branches that the bank comes into direct contact with the public it is there that all complaints and grievances develop. Some are due to managerial inefficiency, many to misunderstanding, and in other instances the client is in the wrong. Yet if these grievances are not probed, weighed and settled as far as may be possible, they grow and spread and cause a general sense of grievance and injustice. This is injurious to the smooth working of the whole credit system. Recognizing this fact, Mr. Brown of the Bank of Commerce, in his address to the United Farmers at Edmonton in 1919 made the following suggestion:

"But I can offer you a suggestion as to how the difficulty can be met. Supposing, when you go back to your homes, you appoint in your association a local Committee of Reference, so that complaints of farmers in your own district might be put before it? Then if a complaint were made against a bank, that committee could sit down with the bank manager, sort out the statement of facts on both sides, and decide whether the bank was at fault. If the bank was found at fault and the manager was disinclined to recognize it, the local committee could pass their finding on to the Central committee at Winnipeg, by whom the matter could be taken up with the chief representative of the bank there.

Now, if as a result of such procedure, it were found that any one bank was not fulfilling its duty towards the farmers, the remedy would lie in your hands. On the other hand, if the fault was the fault of a local manager, here and there, no-one would be more anxious to know it than his head office. And with a local committee in the country and a central committee in Winnipeg, or Calgary, or Regina, we might hope to get somewhere." (The Western Farmer and the Bank, Vere Brown, Superintendent of the Central Western Branches, The Canadian Bank of Commerce, p. 21).

I understand that in a number of cases this suggestion was acted upon but on the whole the practice has not developed. Little has been achieved. While the suggestion does go to the heart of the problem the scheme to resolve difficulties is too clumsy. In the wide districts of the west it is hard to get a competent committee together. Farmer members of such a committee would be diffident on passing a judgment upon the banker, particularly if they owed the bank themselves. The farmer complainant dislikes submitting his affairs to the consideration of his neighbours.

The same idea might be more conveniently embodied in the appointment of a credit commissioner clothed with powers similar to those given to the Traffic Commissioner dealing with the railways. The duties of the Credit Commissioner should be to go and investigate specific complaints laid before him by farmers and others touching credits. When he considered an injustice had been done he could take up the whole difficulty with the chief representative in the province of the bank concerned. A very large percentage of the current complaints might be adjusted in this way with profit not only to the farmers and to the banks but to the public at large. As part of his duties he should prepare a report each year for submission to the legislature.

It might develop that his duties would be light but a considerable number of specific complaints have come to my attention this

summer by letter or otherwise which I have been unable to go and investigate. I have information that similar complaints reach the general office of the United Farmers of Alberta and the office of the Attorney General for the province.

The technical qualifications for such a post are a man thoroughly trained in the technique of short-term credit combined with a wide knowledge of agricultural production as carried on in Alberta. The other requirements are perhaps more difficult to fulfil. It would be absolutely necessary that a credit commissioner should possess the confidence of the farmers of the province and could command the respect of the bankers. In addition lack of qualities of tact and discretion would aggravate present conditions rather than improve them. It should not be impossible to secure a man with the positive qualifications necessary for the task. Apart from the direct benefit to be derived from the services of such an official they should be valuable in giving a sense of protection to the individual farmer against unfair treatment and in stopping the circulation of stories of injustice which pass at face value in different communities creating fear and distrust but are without foundation.

XIV. - MISUNDERSTANDING.

The outstanding fact in the credit situation in Alberta is a failure of the Bankers and farmer to understand and feel each others problems. I have puzzled over this fact throughout the investigation but I am not sure that I have reached an explanation. At the outset I believed that there was a lack of liaison between the banks and the farmers. This I felt was due to the failure of the banks to keep in touch with the western situation. However, this is not manifest. My investigations show me that a considerable number of directors of the chartered banks are drawn from the western provinces, a considerable number are directly interested in agricultural production. The banks of which this is most true do not stand higher in regard by the farmers than other banks where the proportion is less. Directors, managers, and assistant managers of all the banks have visited the province with sufficient frequency to make themselves acquainted with Alberta. Yet despite these facts a lack of liaison and mutual understanding appear.

I think this to be accounted for in this way. In the last few years the farmers of the prairie provinces have developed a remarkably strong organization, especially on its political side. The economic side may be weaker but in fact until recently its main interests have been economic. Since 1915 it has been agitating for adjustments looking to more convenient credit facilities. As the depression continued specific grievances increased in number. I believe these specific grievances to have been the driving power behind the various resolutions passed by the United Farmers of Alberta.

"Q. Now just there a point I want to be clear about, is it those grievances, which you have presented this afternoon, which have really been the reason for those resolutions in the main?

A. (The General Secretary of the United Farmers): I would say so.

Q. And the various resolutions have largely resulted from grievances of the nature which you have presented.

A. I think so." (Calgary, p. 17-18).

Dissatisfaction has become more acute with the passage of time and has been reflected in wider and more comprehensive resolutions. Very few bankers in the Canadian west appear to have paid much attention to the farmers' movement. There was a Farmer-Banker conference in Winnipeg in 1916 which seems to have had some

effects. Mr. Vere Brown, late with the Bank of Commerce, made some well conceived efforts but on the whole the banks have stood apart from the organized agriculture. There has been no welcome for the natural desire of the farmers to improve their economic position by organization and mutual effort.

In the absence of any large, well-conceived, public-spirited attempt by the bankers to candidly and publicly explain to the rank and file of their agricultural constituency the position and problems of the banks in this province naive views as to the ease with which credit can be manufactured are prevalent. Moreover, failing to come into contact in this direct and open way with the farmers' side of the problem, the bankers, I think, have failed to appreciate the farmers' position and their grievances. Most of these grievances, I believe, could be resolved amicably by conference, explanation and discussion. The bankers have not taken, in my judgment, a long-sighted view of the western situation or they would seek this via media.

XV. - CONCLUSION.

1. The province of Alberta is still in the development stage. For many years there will be a demand for vast sums of capital to enable it to reach the full measure of its resources. The bulk of this capital must come from elsewhere. At present one of the greatest agencies the province enjoys in this respect is the chartered banks. Many farmers in this province, with scant capital resources, are financing through the banks. Despite severe temporary reverses these farmers are gradually winning through and their difficulties with the banks will presently disappear. But this will take time and for many years to come there will be other settlers entering Alberta with precisely the same difficulties and the same problems to face.
 2. Our banking system is the result of one hundred years of experimentation and experience in adjustment to the needs of industry. Each successive revision of The Bank Act has sought to better fit it for this purpose. But it is only in the last two decades, with the opening of the west, that the farmer has turned to the banks with anything like the same frequency that the business man does. If the banks wish to preserve this clientele they will have to adjust their policies and practices to meet the needs of these customers. Grievances and sources of irritation have been disclosed but do not appear to be of such a nature that they cannot be remedied along sound banking lines. The method should be mutual conference and open-minded study of the problems involved. To my mind the great problem at the coming revision of The Bank Act should be to revise the Act so as to enable the banks to become as convenient and flexible agencies for the dispensing of credit to the farming as to the mercantile and industrial side of our economic life.
 3. A failure to achieve this purpose will undoubtedly lead to the establishment of competing institutions, government owned or otherwise, with this end in view.
 4. An agreement to enforce uniformity of practice in the matter of discounting smacks of monopoly. In the public interest, where monopoly appears, so must regulation and control.
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